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ON THE COVER

Our Deflated Future?

Although inflation has been America's main economic problem for the entire post-war era, a number of economists think *de*flation is the biggest threat now. This is a measure of how severe the economic crisis has become in recent months. *By John Steele Gordon* Page 18

ARTICLES

18 Our Deflated Future? *by John Steele Gordon*
Probably not.

20 The Big Three's Big Three *by Stephen Spruiell*
Severance, pensions, and health benefits.

22 Wrong Road *by Sam Staley & Adrian Moore*
On transportation, some folks don't stop thinking about yesterday.

26 Sarko's Bite *by Andrew Stuttaford*
The French president turns out to be French.

28 Oogedy-Boogedy in Pinstripes *by Kevin D. Williamson*
Feel like blaming someone for the market crash?

32 Washington, P.C. *by John J. Miller*
The new Capitol Visitor Center has a shaky grasp of history.

34 Scapegoating the Social Right *by Ramesh Ponnuru*
A fact-free distraction.

36 In Search of the Afghan Maliki *by Amir Taheri*
The U.S. should focus on its own interests.

40 Go Forward to Gold
by Lewis E. Lehrman & John D. Mueller
How to lift the reserve-currency curse.

COVER: *Daniel Cox/Oxford Scientific/Jupiter*

BOOKS, ARTS & MANNERS

50 The Old New Deal—*Conrad Black* . . . Traitor to His Class: The Privileged Life and Radical Presidency of Franklin Delano Roosevelt, *by H. W. Brands*

52 Left Behind—*Claire Berlinski* . . . Left in Dark Times: A Stand Against the New Barbarism, *by Bernard-Henri Lévy*

53 The Epic of Finance—*Allan H. Meltzer* . . . The Ascent of Money: A Financial History of the World, *by Niall Ferguson*

55 Politics in the Round—*Kevin D. Williamson* . . . American Rifle: A Biography, *by Alexander Rose*

57 Film: Under Done—Ross Douthat reviews *Australia*.

58 City Life: As Dreams Are Made On—Richard Brookhiser extracts old from new.

SECTIONS

2 Letters
6 The Week
46 The Bent Pin
48 Help!
49 The Long View
54 Poetry
60 Happy Warrior

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letters to the editor

NO ONE AGREES ABOUT GOD

It was an honor to have a reviewer of the intellectual talent of John Wilson, the founding editor of a splendid bimonthly review of books, *Books and Culture* ("Out of Darkness," December 1). I appreciate the kind things he wrote about *No One Sees God*, as well as his severe criticism about what seem to him its three main "muddles." He thinks I mix up the Christian faith with philosophy, illicitly confuse the darkness of the atheist with the darkness of the theist (including Christians and Jews), and do not protect simple believers like our grandmothers from the demands rightly made upon philosophers.

Of course, it is easy to see how my rhythmic shifting of gears between one argument and another in *No One Sees God* could have been experienced by many readers as a series of "muddles." That shifting resulted from the difficulty of the task.

With more skill someone else might have better resolved those difficulties, but the difficulties themselves were unavoidable. It was crucial for *No One Sees God* to keep its central line of argument within the sphere of natural theology (the philosophy of God), even though this is a project that Protestant Christianity has often rejected, both traditionally and in modern times.

On the other hand, it was also crucial to rebut some of the "New Atheists'" attacks upon the Jewish and Christian God, attacks that are sometimes so naïve that they threaten even the philosophical approaches to God. Jewish and Christian conceptions of God derive from God's own "pulling back the veils" (*revelare*) that hide his full nature from reason. But revelation depends on the possibility that the Author of all things can make known, to creatures capable of insight, reasoning, and judgment, truths addressed to their minds. He invites them to accept or to reject these truths, on grounds for which they are prepared to give an account. Thus, revelation implicitly affirms the legitimacy and necessity of the exercise of reason.

Add in the third difficulty. Even non-philosophers—*especially* non-philosophers—usually have an obscure awareness of God's presence. That seems to be the default position of the human race, not only in the long-distant past but today. One does not expect non-philosophers to have much patience with the long arguments philosophers need to make. Still, one expects philosophy to give a good account of why ordinary, simple awareness of the presence of God is justifiable even to philosophers.

No One Sees God sets forth many road signs to guide the reader as to when the argument is philosophical, and when it must necessarily defend Christian accounts of God against unwarranted charges—unwarranted on purely philosophical grounds. I remind the reader often that the main purpose of the book is to give centrality to philosophy, not faith.

If I am allowed to live so long, perhaps I may later offer a fuller account of Christian faith. In any case, favorite authors of mine such as Romano Guardini have written such books far better than I can (see, especially, his *The Lord*). That is surely clear to readers of my earlier attempt to write such a book, *Confession of a Catholic*.

Most simple believers that I know—my mother, for instance—at some time in their lives have experienced the darkness of unknowing about which I write. But she would never have talked about it in the language of philosophers, or even mentioned it at all. I know some of the things she suffered in silence, and I saw how deeply they made her distraught even about her relationship with God. Thus, while the darkness of which I write may not be the daily bread of countless simple believers, a great many seem to have experienced it at certain crucial times in their lives.

Finally, there are in *No One Sees God* more pages than I wish to repeat here on the differences between "doubt" and the dark knowledge of "the cloud of unknowing." Among us, both believers and unbelievers find it impossible to see God with our own eyes, or to detect him by any of our other senses. God is not a material

Continued on page 4

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object, one more piece of furniture in the universe. God cannot be reached through our senses. God does not operate on that frequency. And God is also out of range of our imagination and memory. Only little children can draw pictures of God.

As adults, when we do come to know God (in this case, whether by philosophy or by Christian faith), we can only do so by a "knowledge of unseeing," a kind of clouded, screened-off knowing, but no less certain for that. This knowing is not the same as doubt. It is not born of confusion or uncertainty or partial ignorance. It is real knowledge, a certain knowledge, tested by long experience, knowledge one would die for rather than be unfaithful to. A most practical knowledge. Worth trusting one's life to.

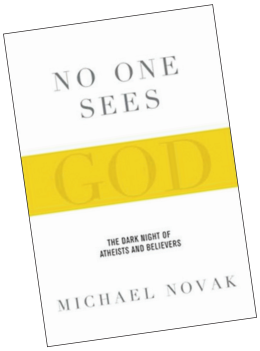
These very differences mark the divergence between the darkness experienced by the atheist and that experienced by those who sense, that is, *know* (not just simply "believe") the presence of God in which they live. Both experience a very real darkness—the atheist looks, and there is no one there. When he seeks God, the atheist comes up with blanks. Often this is no torment to an atheist, only a darkness, which he interprets as a null category: "There is no God."

By contrast, the one who knows of God's presence soon feels the inadequacy of all human "frequencies" (of sense, imagination, and even reason) to bring the living God face-to-face. Such a one knows this unseeing as a real absence, and a very painful loss. This is all the more true in the case of someone like Mother Teresa, who staked everything on the love she bore for the unseen God. After all, this is the same love she meant to convey to the poor ones she serves. She felt cut off from her own source of the love she meant to share with them.

It is not easy for anyone to trace out the differences in the *empirical experiences* of darkness by the atheist and the knower of God. But the differences in the pain they feel are stark. In addition, Jews and Christians who have been well instructed know to expect this dark night, and in its worst moments to follow their North Star, which is to bear love to their neighbors—especially to those they don't particularly like. "How can you love God whom you don't see, if you do not love your neighbor whom you do see?"

What Jewish and Christian revelation adds to philosophy, which philosophy itself has sometimes gained a hint of but hardly dares to assert on its own, is that God reveals himself as the love that impels us to show love to one another. The fact that sometimes some atheists do this, and better than some (even many) Christians do, merely throws another lovely irony into the fire: "Judgment is mine, sayeth the Lord."

The mysteries of what actually occurs in every human heart are not for humans to judge. On the Last Day, the Creator and Judge of all humans may draw unto himself some *we* think of as atheists (even some who think of themselves as atheists, but who show self-sacrificing love to others), and may cast some others who imagine themselves to be "good" Christians into outer darkness, because love for others is the very test they failed.



Michael Novak
Author, No One Sees God

PUT A CAP IN YOUR PLAN

Jim Manzi's suggestion that Republicans oppose cap-and-trade in Congress next year ("You Paid What for That?"; December 1) seems a good blueprint for turning the party into a permanent minority.

Obama's campaign rhetoric about reducing carbon emissions by 80 percent is obviously pure fluff. More likely is a modest cap-and-trade or carbon tax that may raise gas prices by 20 cents and electrical bills about $6 a month, and promise to reduce carbon emissions 20 percent by 2020. So what's wrong with this? Manzi concedes there are reasons to worry about global warming. Passing a law to restrict carbon emissions is no more worrisome than passing a law to prevent people from littering the sidewalk. Cap-and-trade is a market mechanism originally suggested by Milton Friedman.

Conservatives should be concentrating their firepower on the liberal environmental effort to stonewall nuclear power and replace it with windmills and solar energy, because in fact nuclear power is the only technology that will ever be able to replace fossil fuels.

William Tucker
Piermont, N.Y.

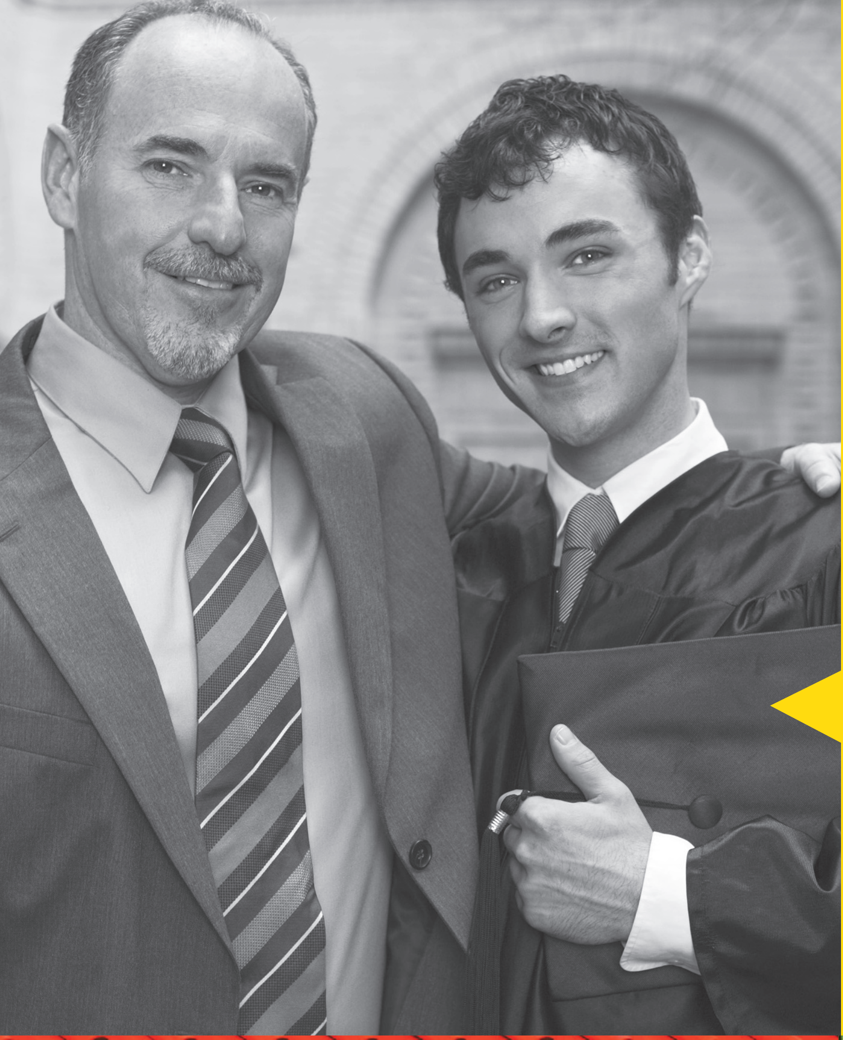
JIM MANZI REPLIES: I agree with Mr. Tucker that many government-sponsored alternative energy schemes are politically motivated and economically irrational. But the Obama cap-and-trade proposal is no exception.

Mr. Tucker may choose to support a different plan that attempts to achieve only one-fourth of the emissions reductions of Obama's proposal (though to get such a plan on the table, he'd have to accomplish a significant negotiating victory). But consider such a "modest" cap-and-trade program that raises the price of gas by 20 cents per gallon in an effort to reduce consumption by 20 percent. This would be nice if it worked, but the price of gas went up by about $1.50 over the past several years, and consumption dropped only a few percentage points. This is because the private economic benefits of burning carbon are so high. The bottom line is that it's incredibly expensive to try to force emissions reductions through taxes or rationing, and 20 cents just won't cut it.

As for turning Republicans into a permanent minority, resisting such a scheme might be politically damaging, but if recent events are any guide, that won't be the case: Resisting the Lieberman-Warner cap-and-trade scheme this spring turned out to be one of the only significant conservative political victories of 2008.

EXPLANATION AND APOLOGY

In our last issue, because of a technological glitch, letters with diacritical marks (such as the "e" in "café") printed as non-Roman characters. ÖÓÞ*s*.



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The Week

■ One bridge to nowhere is an embarrassment; a thousand bridges to nowhere are a "fiscal stimulus."

■ "It's a lot easier to get into these situations than it is to get out of them," says Citigroup CEO Vikram Pandit about his ailing bank's real-estate portfolio. Taxpayers are no doubt feeling the same way about the ongoing federal operation to prop up the banking system with their money, a project now $45 billion deeper into the hole with aid to Citigroup. Citigroup is politically connected: Robert Rubin, Treasury secretary under Clinton and a mentor both to current Treasury boss Henry Paulson and to Obama Treasury nominee Timothy Geithner, serves on the board. And while Citigroup shareholders have been racked—their investments have lost 80 percent of their value this year—Citigroup's management inexplicably survives, the financial equivalent of those hardy post-nuclear cockroaches of Cold War lore. This is surely not the right outcome, and Messrs. Pandit and Rubin, among others, should be gotten out of their situations post haste. Meanwhile, HSBC, the London-based bank, wants to acquire the best of Citigroup's assets. Better them than us.

■ Barack Obama's reported selection of Hillary Clinton as secretary of state shows a few things about him. He trusts in the power of his office to keep the upper hand, and in the power of his cool to handle any *agita* (cf. George W. Bush and Colin Powell, Ronald Reagan and Alexander Haig, George Washington and Thomas Jefferson). He is a lonely politician; the inner circle he has acquired in his short and parochial career is limited to a handful of academics and Chicagoans, some of them radical, crooked, or crazy. To staff his administration he must reach out more than the average president-elect. Hillary Clinton's acceptance in turn suggests a few things about her. Despite a good record of pothole-filling as a senator, she cared little for the office or the state she represented. At the first choice between Rome, New York, and Rome, Italy, she chose the latter. She has spent her life serving a man, her husband. Perhaps it will be a relief to serve a man who is a little more tightly wrapped.

■ This is change we can believe in, or at least respect: Barack Obama wants to keep Bob Gates as secretary of defense. Gates has been the thoughtful, impressive steward of late-second-term Bush defense policy. He has overseen the surge in Iraq and the beginnings of a buildup in Afghanistan. If he's not a down-the-line hawk (he has advocated talks with Iran), neither is he a dove (a proponent of missile defense and a tough, realistic line on Russia). Alas, he's expected to serve only briefly in the Obama administration, after which "change" will surely mean a less capable defense secretary.

R. Genn
rgenn.com

See page 8.

ROMAN GENN

■ Mark Halperin, journalistic bigfoot at *Time*, comes clean on the media love that dare not speak its name: "It's the most disgusting failure of people in our business since the Iraq War. It was extreme bias—extreme pro-Obama coverage." Halperin, speaking post-election, communicates particular dismay at the fact that his colleagues in ink-stained wretchery ignored untruths spread by the Obama campaign in Spanish-language advertising, and at the *New York Times*'s vicious degradation of Cindy McCain. The media's fact-spinning is of course familiar and detestable, but what's worse are the un-facts: Governor Palin never really said, "I can see Russia from my house" (contra John Ridley of NPR among others), just as Dan Quayle never earnestly hoped to use his Latin in Latin America (contra *Newsday*, the *Chicago Tribune*, *Newsweek*, and *Time*). John Ashcroft terrified of calico cats and naked statues? Nope, but those stories continue to make the rounds. Once the media have cast the role, there is no changing it, and Obama has been cast as the Secular Savior, Cindy McCain as Cruella De Vil, and Governor Palin as Dan Quayle (the media's Dan Quayle, not the real one) in drag. Will Rogers famously said, "All I know is what I read in the papers." He knew less than he thought.

■ We predicted Obama's election would harken a return to September 10 counterterrorism, and his naming of Eric Holder

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to be attorney general does not dispel that fear. But Holder's conventionally liberal policy views are not the only disturbing thing about his nomination. As the Clinton administration's last deputy attorney general, Holder was a key participant in one of the most disgraceful episodes in the Justice Department's history: the pardon of Marc Rich, the mega-fraudster and international fugitive. Nor was that the half of it. Over vigorous opposition from prosecutors and the FBI, Holder signed off in 1999 on commutations for 16 unrepentant FALN terrorists who had not even applied for clemency (a prerequisite under DOJ rules) but whose release was thought to improve then–Senate candidate Hillary Clinton's appeal to New York's Puerto Ricans. Holder also supported commutations for two Weather Underground terrorists. His AG nomination confirms that two years of Democratic posturing over the "politicization" of the Justice Department were just that, posturing.

STEVE SCHAEFER/AFP

■ By naming Greg Craig as White House counsel, Obama has gotten himself a skillful lawyer—Craig led Bill Clinton's impeachment defense. He has also hired a veteran anti-anti-Communist. As a student at Yale, Craig was an outspoken protester against the Vietnam War. In Washington, he helped Ted Kennedy organize hearings to defame the Contras as they struggled against Nicaragua's Sandinista regime in the 1980s. In 2000, Craig represented the father of Elián González, the refugee boy whom the Clinton administration was determined to send back to Cuba at gunpoint, even though his mother had died trying to get him to the United States. Technically, left-wing activists paid Craig's attorney fees, but he was for all intents and purposes a lawyer in the service of Fidel Castro. With the press, Craig has aimed to portray himself as an idealist. He's been closer to a dupe.

■ Republicans made few changes to their leadership in Congress. The biggest came in the House, where Roy Blunt stepped down as the party whip and Eric Cantor, a younger congressman closer to conservative activists, replaced him. The House Republican leader, John Boehner, has sounded appropriately under-awed by Obama's alleged mandate to move the country left. (As has Senate Republican leader Mitch McConnell.) Boehner has also proposed an economic plan that combines pro-growth tax cuts with populist touches such as an increase in the child tax credit. There, in embryo, is the Republican task over the next two years: resisting much of Obama's agenda and presenting sound, popular alternatives to it.

■ Senate Democrats voted, by a wide margin, to strip erring brother Joe Lieberman of his seat on the Environment and Public Works Committee, a wrist slap, but left him chairman of Homeland Security and Governmental Affairs. So the Connecticut Democrat and John McCain supporter keeps a plum assignment and his place in the Democratic caucus. Liberal blogger Markos Moulitsas announced himself "done with" Harry Reid, Democratic majority leader, as a result. Is he also done with Barack Obama, who blessed the deal? Obama's magnanimity is a signal of his confidence, and perhaps also of his independence from the netroots that helped nominate him. He intends to call his own tune; anything left-wing that he does will be at his own initiative, not the Kossacks'.

■ The race between John Dingell and Henry Waxman for the chairmanship of the House Energy and Commerce Committee was a proxy war between congressional Democrats who want to protect manufacturing jobs from the onslaught of environmental regulations and those who wish to go green without regard to the economic implications. The greens triumphed as California's Waxman, a liberal ally of Speaker Nancy Pelosi, unseated Michigan's Dingell, who has been his party's senior member on the panel for 28 years. Waxman is a dogged investigator driven by passionate partisanship. He will make global warming a top legislative priority on one of the most influential committees in the House. His victory is an early signal that House Democrats are eager to move leftward. Dingell was no free-market capitalist, but it won't be long before business leaders realize how much they miss him.

■ Weep not for Alaska senator Ted Stevens, who lost his reelection race after being convicted of making false statements about accepting gifts from an oilfield-services company. Stevens is the longest-serving Republican senator in history, and he used that seniority to become one of Washington's worst pork-barrel spenders. His farewell tributes on the Senate floor have been something of a spectacle. Larry Craig, himself departing office, offered an emotional tribute to "Uncle Ted," recounting his wonder at discovering that the airport in Anchorage was named after Stevens (in Alaska, it is hard to find a major infrastructure project that's not). The increasingly befuddled Robert Byrd, 91, interrupted Stevens's tribute speeches with loud cries of "That's right!" and "Amen!"—an argument for age limits if not term limits. Against this backdrop, it's worth noting that the much-maligned Sarah Palin was among the first to criticize Stevens for his involvement with VECO, the aforementioned company, whose two top executives have pleaded guilty to bribing Alaska state legislators. Palin's career so far has been marked by opposition to the type of corrupt politician that Stevens best represents.

■ In her role as governor of Alaska, Palin pardoned a turkey at a farm outside Wasilla before Thanksgiving. But during the Q&A afterwards, TV cameras caught some of the unpardoned turkeys behind her, having their blood drained out. *Gross*, sniggered reporters, like second-graders, while the animal huggers tut-tutted like Victorian schoolmarms. For Palin the campaign is unending. Her fan base does her no service, though, by counterattacking in the name of realism (Where do roasters come from?) or populism (These are the jobs Harvard grads won't do). Palin will never again be just the governor of our emptiest state. She is a star, with the eyes of the world on her. Like Ronald Reagan, she knows how to hit her mark. But she needs people, as Reagan had, to take care of her visuals.

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While the Federal Reserve fiddled and the economy burned, we were busy perfecting our most advanced power reserve watch. Times are tough and that's why we've slashed the price of our ***Presidio Power Reserve*** **watch** by half. Your 401K might look more like a 201K these days, but you don't need to sacrifice your appreciation for the finer things. And you'll never have to bail out the Presidio because it runs on its own power and never needs batteries.

The ***Presidio Power Reserve*** features an exceedingly rare automatic movement that took us more than four years to develop. It's among the most advanced timepieces we've ever created. Stauer has spent over $10 million perfecting our limited-edition watches to deliver luxury at unbelievable prices. At $300, the ***Presidio*** was already generating buzz among watch connoisseurs, but with the price slashed in half to under $150, I can guarantee our limited-edition of 4,999 will not last.

Shop around and you'll find similar power reserves that sell for thousands. You're welcome to pay $18,940 for a similar Girard Perregaux or $17,500 for a Piaget. And for those on a budget, we found a $3,190 Baume & Mercier. Such a prestige purchase might have made sense months ago, but economic times have changed. That was then and this is now.

The brass machined rotor means no winding.

The exhibition back affords a view of the 230 precision parts. The *Presidio Power Reserve* runs 60% longer.

27 jewels keeps the movement running smoothly.

Classic Design, Ultra-Modern Technology. With a vintage, 18k gold-layered case and an ivory-etched dial, it carries the design of an antique timepiece. But, we've used the latest modern, precision Swiss watchmaking machinery to construct a watch that is 60% more efficient than standard automatics and much more accurate than any historical collector's watch.

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It's important to keep fine automatic watches wound to an optimal level, and now that's even easier since there is a power reserve indicator on the dial so that you can see how much kinetic energy is stored in the winding mechanism. It works just like the fuel gauge on your car.

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- Power reserve runs 60% longer
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position for openly political purposes, and in the process violating the privacy of your perceived political enemies, is not enough. We're referring to Helen Jones-Kelley, the director of the department in question, who has been suspended for a month without pay for accessing the confidential records of Joseph "Joe the Plumber" Wurzelbacher, the Ohioan who became an instant celebrity after confronting Obama about taxes. The moment John McCain praised Joe the Plumber, Jones-Kelley and her staff went to work, searching their confidential databases for dirt on Wurzelbacher. When asked about her actions, Jones-Kelley explained that such searches were routine when someone unknown bursts onto the public scene. Turns out that wasn't true. And then, when state officials investigated, they found that Jones-Kelley had also used her official e-mail account to raise money for Obama. In spite of all that, Democratic governor Ted Strickland declined to fire her, leaving Republicans dumbfounded. "It's obvious she has lied to me and the governor and the media as to why these checks were done," one GOP lawmaker told the *Columbus Dispatch*. "Prior directors never did such things and said they would fire anybody who did." So why is this case any different?

■ No person or institution should enter into a public controversy expecting to escape criticism—even unfair and dishonest criticism. But the jihad currently being waged against Mormons is unconscionable. In a Denver suburb, a Book of Mormon was set on fire and dropped on the doorstep of a Mormon temple, presumably as a statement about the church's support of Proposition 8 in California, an initiative that defined marriage as the union of one man and one woman. Envelopes full of suspicious white powder were sent to church headquarters in Salt Lake City. Blacklists of pro-8 Mormon donors have been compiled. Mormons are routinely being denounced as hateful and bigoted. None of this is even remotely justifiable. The Mormon church has not been particularly strident in its opposition to same-sex marriage, nor is it alone among churches whose leaders supported the ballot measure and encouraged followers to do likewise. Throughout, Mormons acted within their rights, in honest pursuit of what they believe to be good. Gay-rights activists have every right to criticize this. But they hurt their cause by fantasizing Mormon conspiracies roughly equivalent to the tales Saudi clerics tell about Jews. The vitriol has been tolerated in polite society only because anti-Mormon bigotry is pervasive—and it is this, not the church's role in the Prop 8 debate, that is truly shameful.

The Regulators' Rough Ride

WHAT caused the financial crisis? President-elect Obama had a simple story during the campaign: "Eight years of policies that have shredded consumer protections, loosened oversight and regulation, and encouraged outsized bonuses to CEOs while ignoring middle-class Americans have brought us to the most serious financial crisis since the Great Depression."

According to this view, which was echoed vocally by Obama's economic team, deregulation and conservative ideology are to blame.

There is a simple test of this view. Countries around the world have wildly different regulatory structures. Some, like the U.S., have relatively light regulatory structures, and rely more on free markets to discipline institutions. Others, including Germany and Turkey, regulate a good deal more.

If Obama's thesis is correct, then the economic crisis should be worse in the countries that have looser regulations fueled by a "failed ideology."

The data show the exact opposite.

The vertical axis in the accompanying chart measures the change in stock performance among major industrialized countries during the past year. The horizontal axis is the Fraser Institute's Economic Freedom of the World index, which provides a measure of financial-market freedom. The index measures economic liberty by taking into account government size, property-rights protection, monetary policy, trade freedom, and regulatory barriers across countries. Freedom increases from left to right.

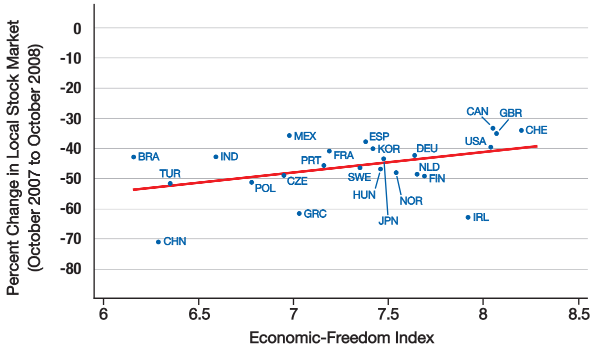
The fitted line is a regression line that captures the basic tendency of the data. If Obama were correct, the line would slope downward, and countries that are economically free would have had bigger collapses in their stock markets. In fact, the line is upward-sloping, which implies that over the past year, countries that are economically free have suffered less than countries that are not. (For those keeping score: The line is statistically significant.)

The data tell a startling story. There is no country that went unscathed over the past year. Even the most aggressive European regulatory states suffered terribly. As we consider regulatory changes, there is no successful country in the OECD that the U.S. could consider copying.

A terrible storm has certainly swept the world's economies into recession. It will probably be years before we fully understand that storm. But at this moment, we do know one thing: Countries that were less free fared worse.

—KEVIN A. HASSETT

Economic Freedom and the Financial Crisis



SOURCES: OECD; THE FRASER INSTITUTE'S ECONOMIC FREEDOM OF THE WORLD: 2008 ANNUAL REPORT (STOCK-MARKET INDICES CALCULATED FROM LOCAL CURRENCY. FREEDOM INDEX IS LARGER FOR FREER COUNTRIES.)

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THE WEEK . . .

■ The Obamas announced that they will send their daughters, Malia and Sasha, to Sidwell Friends, the 125-year-old Quaker-run school. It was an inclusive, egalitarian gesture—so many offspring of the elite go or have gone there: Joe Biden's granddaughters, Mark Penn's children, Chelsea Clinton, Albert Gore III, Tricia Nixon. Presidents must be concerned for their children's security and privacy, and Sidwell Friends is used to addressing these concerns. Yet Amy Carter managed to go to public schools when she lived in the White House. Is it too much to ask that Democrats, beholden to teachers' unions, show some confidence in the handiwork of their supporters? Or do they know something they will not admit?

■ There is talk of a new New Deal in the air, and even a new Works Progress Administration, with President-elect Obama promising to "put people back to work rebuilding our crumbling roads and bridges, modernizing schools that are failing our children, and building wind farms and solar panels." Just one small point here, Mr. President-elect. Congress stipulated in 1937 that all WPA programs would be closed to aliens, even those legally resident. If Congress were to legislate a similar stipulation for *your* public-works program, would you sign that stipulation into law? Or will your program of road-building and school-modernizing turn out to be just another lot of jobs that Americans won't do?

■ Pro-choicers respect the sanctity of individual conscience—except, that is, when the conscience in question belongs to a medical worker who wishes not to participate in abortion. The Bush administration has proposed regulations to protect such conscientious objectors, and liberaldom, including President-elect Obama, is vowing to erase such protections. Conservatives should fight to keep them. The Supreme Court may block our protecting unborn children from the lethally coercive act of abortion, but it has never ruled that people must be conscripted into taking part in it.

■ Ayman al-Zawahiri, al-Qaeda's second-in-command, greeted Barack Obama's election by calling him a "house negro." Zawahiri's online video also took swipes at Colin Powell and Condoleezza Rice, and included decades-old footage of Malcolm X carrying on in a similar vein about civil-rights leaders he disliked. The racism of the Arab world, in stinking flower in Sudan, fits well with the Islamist worldview. More noteworthy is Zawahiri's use of American anti-Americanism. Islamism is a reactionary ideology that dreams of restoring a fabled caliphate. But it is also a modern radical movement, influenced by fascism in its cradle, and nourished by Western left-wing crackpots whose notions it absorbs and blows back. They are crazy, and they rely on the craziness of strangers. Barack Obama was right on election night when he pledged to defeat them.

■ We struck a security pact with the Iraqis. It's imperfect. We protect our troops, but not contractors, from Iraqi law. There are two ill-advised unconditional deadlines in the agreement: June 2009 for U.S. troops to cease combat operations in Iraqi cities, and the end of 2011 for them to exit the country entirely. Since nearly everything in Iraq is negotiable, these deadlines can presumably be changed, especially the exit date (a new security agreement a few years from now could extend it). Whatever the flaws, concluding the agreement at all is a victory. The Iranians and their tool, Moqtada al-Sadr, opposed it, worried over what the continued presence of Americans in Iraq says about the future of the country. Now the temptation for both the Iraqi and the U.S. government will be to draw down too soon. This would be a mistake when Iraq has two important, and potentially destabilizing, elections coming up over the next year (provincial and then national). Barack Obama has been handed an extraordinary opportunity with the security gains of the last two years. He can preside over a successful endgame in Iraq. This is the gift the surge has given him, if he doesn't throw it away.

■ The times, they are a-changin': peace & love & hope hope hope, etc. Except someone forgot to tell Iran. The details of the latest IAEA report make clear that the Islamic Republic now has, or is very close to having, enough nuclear material to produce an atomic bomb. It is also on track to have 6,000 centrifuges operating at its uranium-enrichment facility by the end of the year (the current number is 3,800). The uranium it is stockpiling has not yet been enriched enough to weaponize, and efforts to that end would be hard to hide if carried out at known facilities. When they begin, what will we do? Have we simply accepted that there will be a nuclear-armed terror sponsor? Sure looks that way. Are our policymakers and politicians and media thinking seriously about this question? Sure seems not. Meanwhile, a separate IAEA report tells of "a significant number" of uranium particles at a Syrian site bombed by Israel last year, and provides other details corroborating the claim that the site was an incipient nuclear reactor. Perhaps once we're done feeling good (and bad) about November 4 we can give a minute's thought to how dangerous the world remains.

■ Russian president Dmitri Medvedev enjoys conducting a one-man permanent demonstration against the United States. Latin America must have looked like a promising setting for this favorite pastime of his. A weeklong fiesta began in Peru, at the Asia-Pacific Economic Cooperation forum. In Lima, the country's capital, Medvedev had a face-to-face meeting with President Bush, and the two discussed—if that's the right word—the Russian seizure of Georgian territory and the U.S. proposal to install defensive missiles in central Europe. Next stop Brazil, and the day after that Venezuela, where Medvedev turned arms salesman with Hugo Chávez, who is always willing to volunteer for an anti-American demonstration. A Russian nuclear-powered cruiser, with support vessels, was sailing offshore just in case anyone missed the point. Final destination: Cuba, that Cold War hand-me-down. Russian companies hope to drill for oil in the Gulf of Mexico waters off Cuba, but the Cuban leadership has bad memories of being abandoned by the Soviets. One little detail is a fascinating revelation of Medvedev's state of mind: He brought food-tasters with him, and thought it fit to let everyone know.

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AS HEARD ON PAUL HARVEY NEWS

New advanced portable heater can cut your heating bill up to 50%

Heats a large room in minutes with even heat wall to wall and floor to ceiling

Does not get hot, cannot start a fire and will not reduce humidity or oxygen

A new advanced quartz infrared portable heater, the EdenPURE®, can cut your heating bills by up to 50%.

You have probably heard about the remarkable EdenPURE® as heard on Paul Harvey News and on television features across the nation.

The EdenPURE® can pay for itself in a matter of weeks and then start putting a great deal of extra money in your pocket after that.

A major cause of residential fires in the United States is portable heaters. But the EdenPURE® cannot cause a fire. That is because the quartz infrared heating element never gets to a temperature that can ignite anything.

The outside of the EdenPURE® only gets warm to the touch so that it will not burn children or pets. Pets can sleep on it when it is operating without harm.

The advanced space-age EdenPURE® Quartz Infrared Portable Heater also heats the room evenly, wall-to-wall and floor-to-ceiling. And, as you know, portable heaters only heat an area a few feet around the heater.

Unlike other heating sources, the EdenPURE® cannot put poisonous carbon monoxide into a room or any type of fumes or any type of harmful radiation.

Q. What is the origin of this amazing heating element in the EdenPURE®?

A. This advanced heating element was discovered accidentally by a man named John Jones.

Q. What advantages does infrared quartz tube heating source have over other heating source products?

A. John Jones designed his heating source around the three most important consumer benefits: economy, comfort, and safety.

In the EdenPURE® system, electricity is used to generate infrared light which, in turn, creates a very safe heat.

Never be cold again

Cannot start a fire; a child or animal can touch or sit on it without harm

After a great deal of research and development, very efficient infrared heat chambers were developed that utilize three unique patented solid copper heat exchangers in one EdenPURE® heater.

Q. How can a person cut their heating bill by up to 50% with the EdenPURE®?

A. The EdenPURE® will heat a room in minutes. Therefore, you can turn the heat down in your house to as low as 50 degrees, but the room you are occupying, which has the EdenPURE®, will be warm and comfortable. The EdenPURE® is portable. When you move to another room, it will quickly heat that room also. This can drastically cut heating bills, in some instances, by up to 50%.

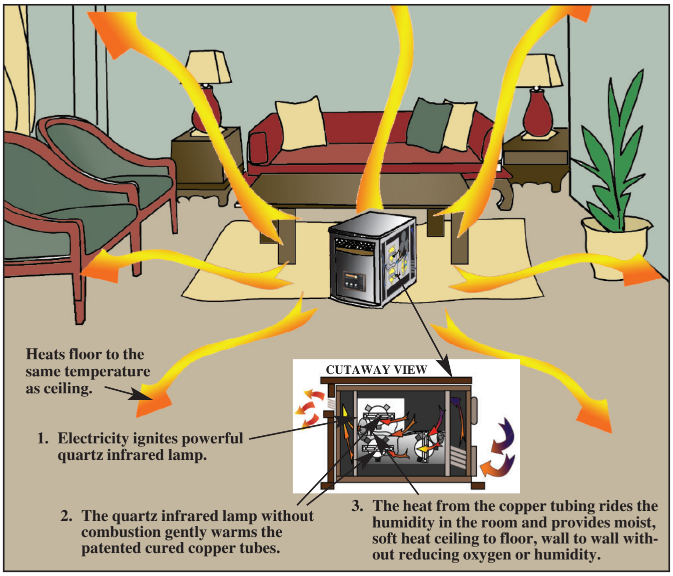
The EdenPURE® comes in 2 models. GEN3 Model 500 heats a room up to 300 square feet and GEN3 Model 1000 heats a room up to 1,000 square feet.

End of interview.

The EdenPURE® will pay for itself in weeks. It will put a great deal of extra money in a users pocket. Because of today's spiraling gas, oil, propane, and other energy costs, the EdenPURE® will provide even greater savings as the time goes by.

Readers who wish can obtain the EdenPURE® Quartz Infrared Portable Heater at a $75 discount if they order in the next 10 days. Please see the Special Readers Discount Coupon on this page. For those readers ordering after 10 days from the date of this publication, we reserve the right to either accept or reject order requests at the discounted price.

How it works:


Heats floor to the same temperature as ceiling.
CUTAWAY VIEW
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2. The quartz infrared lamp without combustion gently warms the patented cured copper tubes.
3. The heat from the copper tubing rides the humidity in the room and provides moist, soft heat ceiling to floor, wall to wall without reducing oxygen or humidity.

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The price of the EdenPURE® GEN3 Model 500 is $372 plus $17 shipping for a total of $389 delivered. The GEN3 Model 1000 is $472 plus $27 shipping and handling for a total of $499 delivered. People reading this publication get a $75 discount with this coupon and pay only $297 delivered for the GEN3 Model 500 and $397 delivered for the GEN3 Model 1000 if you order within 10 days. The EdenPURE® comes in the decorator color of black with burled wood accent which goes with any decor. There is a strict limit of 3 units at the discount price - no exceptions please.

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☐ I am ordering past 10 days of the date of this publication, therefore I pay shipping and handling and full price totaling $389 for GEN3 Model 500 and $499 for GEN3 Model 1000.

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THE WEEK...

■ For more than a decade, Daniel Ortega was dictator of Nicaragua. Then, in a strange twist of history, he was elected—with 37 percent of the vote, in 2006. But he has not exactly gotten the hang of democracy. In recent municipal elections, he and his Sandinistas threw their weight around, inflicting violence on the opposition. They had the support, financial and otherwise, of their partner in Venezuela, Chávez. They barred the Organization of American States, the European Union, and the Carter Center from observing the elections. (If you’re a Sandinista and you fear what Jimmy Carter will think—you’re really behaving badly.) As the *Wall Street Journal*’s invaluable Latin Americanist, Mary Anastasia O’Grady, pointed out, Ortega “even barred Nicaragua’s highly respected independent watchdog, Ethics and Transparency—which had recognized [Ortega’s] 2006 victory—from the polling stations.” The Sandinistas declared that they won these municipal elections; the besieged opposition said no way—not legitimately. Democracy is a sometime thing in Nicaragua, as elsewhere in Latin America, and it is especially fragile when Sandinistas hold sway.

■ The world cares very little about Falun Gong, the spiritual movement persecuted to a barely imaginable degree by the Chinese government. But some people care, including Ethan Gutmann, a writer and specialist on China. In a recent piece for *The Weekly Standard*, he spelled out the persecution of Falun Gong, concentrating on organ harvesting. It is a gruesome subject—one of the most gruesome—and it is natural to want to turn away. But that is the wrong inclination. In writing about this subject, National Review’s Jay Nordlinger has quoted Robert Conquest, the great analyst of totalitarianism (and its apologists). Conquest points out that the world has seldom wanted to listen to or believe human witnesses, at the time of their witnessing. Testimony out of the early Soviet Union was derided and dismissed—these were “rumors in Riga.” Reports of the Holocaust were Jewish whining. Mao’s victims, stumbling into Hong Kong, were “embittered warlords.” Cubans landing in Florida were “Batista stooges.” And now these strange Chinese cultists are spinning tales about organ harvesting. Years from now, the world might well say of Falun Gong, “Oh, if only we had known!” And some will reply, “What do you mean ‘we’?”

■ Successive American presidents have tried for almost 20 years to give Somalia a government. Neither force nor aid worked. Not really a country any longer, Somalia is a free-for-all for men with guns—for warlords, tribes, and Islamists, including al-Qaeda. They’ve taken to piracy for a living, and they have a thousand miles of the African coast along which to hide. In the Gulf of Aden this year, Somali pirates have captured or attacked some 90 ships, for which they have obtained ransom estimated at around $30 million. The *Sirius Star*, a gigantic tanker with a cargo of oil taken on in Saudi Arabia and worth $100 million, is only one of at least a dozen ships recently hijacked and held in Somali harbors. Pirates have seized ships from many countries, including Ukraine, Denmark, and France. Owners and insurers have so far chosen to pay up, which of course has made piracy a successful money-making operation. Since 9/11, however, piracy has increasingly been seen more as a subdivision of terrorism than as a threat to trade. Well-armed and equipped with modern technology, pirates operate from a “mother ship,” and an Indian warship reportedly engaged and sank one of these. The hijacking of the *Sirius Star* may lead to more responses of this kind. The multinational Combined Task Force 150 already patrols the Gulf with ships of the U.S. Navy’s Fifth Fleet, and some from other countries too. Two centuries ago, the civilized world put piracy down, and it looks as though it will have to repeat the performance.

■ Every once in a while, it pays to check in on what Middle Eastern elites are telling Middle Eastern audiences. And here is Syrian economist Muhammad Sharif Mazloum on al-Kawthar TV, an Arabic-language Iranian network: “The economic crisis began on August 15, 1971, when President Nixon canceled the Bretton Woods agreement which linked the old gold dollar to the Jewish gold. Thus, the dollar was severed from gold, and became subjected to the whims and schemes of the Zionist lobby.” In the early 1960s, “President John Kennedy decided to establish governmental banks to protect the dollar, in which the gold that was pouring into America would be deposited. What became of Kennedy? He was killed by the Zionist lobby.” Etc., etc. (This interview was translated and disseminated by the invaluable Middle East Media Research Institute.) It’s easy to laugh at the kookery on Middle Eastern TV. But peoples that are lied to constantly, and baked in hatred, have little chance at self-emancipation. As David Pryce-Jones has said about the Egyptians, in particular: “Fine people, betrayed by their intellectuals.”

■ Australia’s navy has chronic trouble with recruitment, so it’s been forced to come up with some creative incentives for enlistees. Last year it began offering free breast implants as a benefit for female sailors (male ones too, come to think of it), and now it has announced that almost the entire service will take December and January off, every year, as part of a campaign to create a more family-friendly environment. Tom Paine, in *The Crisis*, decried “summer soldier and sunshine patriot,” but Australia seems to consider a two-month summer vacation the height of patriotism. Besides, without one, what’s the point of those free breast implants? The strategy sounds like a winner, assuming the region’s numerous terrorists and pirates can be persuaded to adopt a similar schedule.

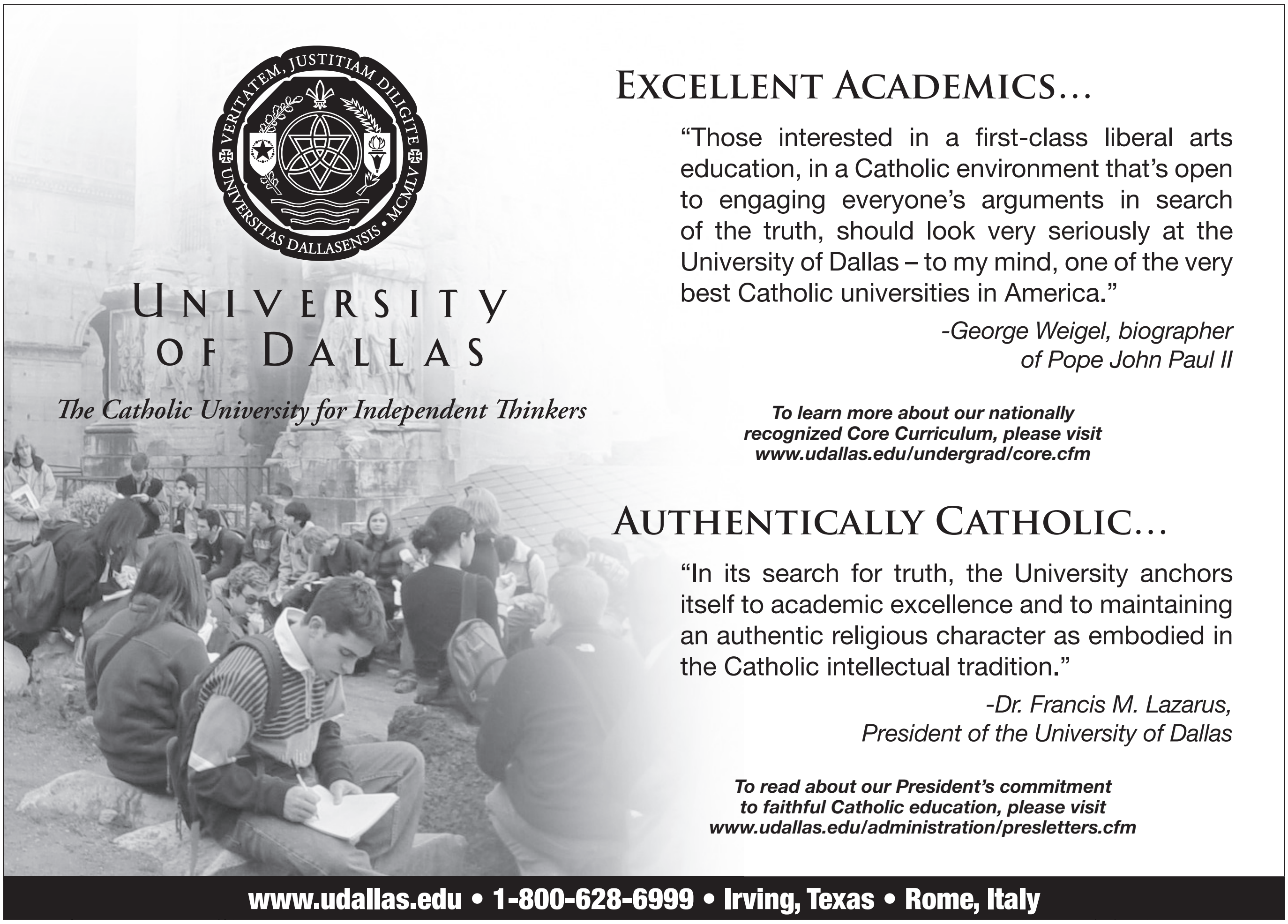
■ Queen’s University in Kingston, Ontario, has engaged six students as conversation police. The actual, even creepier term is “facilitators,” and the particular facilitations they will perform concern monitoring the speech of their classmates in the university’s residence halls. Should students be engaged in politically incorrect speech, and should a facilitator overhear them, then he—we beg your pardon: s/he—will step in to correct the offenders. Interviewed by the *Toronto Globe and Mail*, one of these facilitators explained that his interventions will help “to create an atmosphere of inclusivity.” An atmosphere of fearful silence punctuated with outbursts of rancor and litigation seems more probable. The adjective “Orwellian” has been seriously overworked, but nothing else fits here.

STEPHEN CHERNIN/AP

■ Given that it’s the first original Guns N’ Roses album since 1991—not to mention that all the original band members save singer Axl Rose are gone—we’d expect some in the music press to attack *Chinese Democracy*. What’s interesting is that the (very un-democratic) Asian state’s official press has joined in. China’s thuggish government evidently does not appreciate Rose’s stance on its practices: Though the title track’s lyrics do not put forth a particularly coherent argument, they reference the Communist state’s atrocities against Falun Gong, and elsewhere Rose has expressed sympathy for Tibet. It’s unlikely the “Welcome to the Jungle” screamer will advance the debate in an academic sense, but he may get Americans thinking and talking about the Chinese government’s actions. We welcome that, and consider Rose a contender for the coveted Favorite Rock Star of NATIONAL REVIEW award. If he were to bring back original Guns guitarist Slash, that would help his chances.

■ LITIGIOUS MAN SEEKS SAME; FREEDOM A TURN-OFF. Complainant Eric McKinley, with the state of New Jersey on his side, has won a settlement from the dating site eHarmony under which it will begin to show listings for men seeking men and women seeking women. Other sites cater exclusively to homosexuals, but McKinley wanted to make a point—said point apparently being that nobody should be allowed to exercise his rights if it suggests even the slightest disapproval of McKinley’s choices. The company retains the right to discriminate against married people seeking new partners—although there has been a lawsuit on that, too.

■ For more than six decades, the college-football teams of Illinois and Northwestern have battled over a trophy called the Sweet Sioux Tomahawk. The winner has had the privilege of keeping the prize until it goes up for grabs the next season—one of the many minor rituals of college football that continue to make the game so endearing for players and fans. But now political correctness has sacked the Sweet Sioux Tomahawk for a permanent loss. The trophy was awarded for the final time on November 22, when Northwestern whipped Illinois by a score of 27–10. Northwestern’s athletic director said the schools have agreed to retire the trophy “out of tremendous respect for the Native American community.” It is not clear why the trophy was ever seen as an insult: A tomahawk is a well-recognized symbol of bravery and martial valor. The



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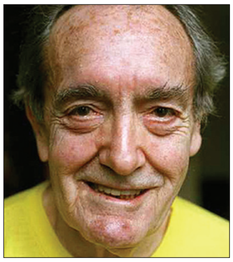
schools now say they'll come up with a new trophy. A white flag, perhaps?

■ James Atlas, of Atlas & Co., decided to publish a book called *How They See Us: Writers from Around the Globe Reflect on America*. The book was to be released on February 2, 2009; galleys were sent around to book-review editors. But those galleys were recalled—because Atlas had changed his mind. Before, America was engulfed in "self-congratulatory isolationism": We deserved the scorn of the world. But then came an event that, like 9/11, "changed everything." "Since this book was conceived, compiled and set in galleys," wrote Atlas, "the election of Barack Obama as our 44th president has altered not only the United States, but the world, in whose eyes we are now seen as a place where sudden strange miracles occur, where literally overnight the luster of the American dream can be restored." November 4, 2008, like September 11, 2001, is an "indelible date." *How They See Us* will now be revised, "in accordance with our new reality." It is to be released on September 7, 2009, not an indelible date in book publishing, just another day in the amazing world of the American liberal mind.

■ Richard Brookhiser first wrote for NATIONAL REVIEW when he was 14—his piece appeared on the cover. Since then, he has written many, many pieces for us. And he has written many books, including studies of George Washington, the Adamses ("America's first dynasty"), and Alexander Hamilton. Rick's erudition and judgment are not only NATIONAL REVIEW treasures, they are national treasures—as acknowledged by President Bush when he awarded Rick the National Humanities Medal on November 17. Among the other honorees was Myron Magnet, of the Manhattan Institute's *City Journal*. His book *The Dream and the Nightmare: The Sixties' Legacy to the Underclass* is only the most celebrated of his achievements. Many people deserve medals, but seldom do they get them. How satisfying when they do.

■ Maj. Gen. Amir Faisal Alvi commanded the Special Services Group, the SSG, Pakistan's elite commandos. He was thus regularly in action against al-Qaeda and the Taliban, inspiring his men as only a frontline general can, weapon in hand. An intelligent and cosmopolitan man, and essentially a patriot, he deplored the sad state of the Muslim world. The Islamists, he liked to say, were cowards who did not meet you out in the open but resorted to buried explosives and assassination. Sure enough, either al-Qaeda or the Taliban was lying in wait for him, and shot him and the driver of his car dead. Though retired, he was still in his 50s. Lately, the United States has been deploying drones with enormous success, killing important and irreplaceable Islamists, but on this occasion the Islamists killed someone important and irreplaceable on the side of humanity and freedom for all. R.I.P.



■ Clive Barnes was one of the most famous critics in the English-speaking world, and deserved to be. He was born in London, and conquered the London papers. Then he came to New York, and conquered the New York papers. He wrote prolifically of dance and theater. Through all his work shined a love of the arts, and of what he was doing. That is something rare in a critic. He once said that the thing to do, if you were a reader, was to find a critic "on the same wavelength as you" and stick with him. A lot of people were on Clive Barnes's wavelength. He died at 81, still reviewing and still loving. R.I.P.

THE ECONOMY

Steady As She Sinks

By speaking of a two-year recovery plan, President-elect Obama has made it clear that the gathering economic gloom is going to continue gathering for some time. The stretching of time horizons is politically astute: If the economy picks up ahead of schedule, he will have beaten expectations; if not, he will have done what he can to avoid blame.

Obama's economic team has been more reassuring. Timothy Geithner, the New York Fed chief, will become Treasury secretary, which promises continuity under circumstances in which we could do worse. Lawrence Summers, who is likely to head the president's economic council, has been clearer-eyed than most Democrats about the role of Fannie and Freddie in causing the financial crisis. Christina Romer, who is likely to head the Council of Economic Advisers, has even had kind words for tax-rate cuts.

Still and all, the policies that command Democratic attention right now are orthodox Keynesian ones: Have the government put money into the economy, and give it to those recipients who are most likely to spend it. Which neatly fits Democratic proclivities: They are happy to give federal money to lower-income workers and state and local governments. We are less enthusiastic. Confidence will return when it is objectively warranted, and it will not be until the housing market finds its bottom and the extent of losses arising from it are known. A stimulus plan that does not advance this process will fail.

A happy side effect of the Keynesian moment in the nation's capital is that tax increases are likely being deferred: The Obamites suggest that rather than immediately raise the top income-tax rate, capital-gains taxes, and dividend taxes, they will wait for those tax rates to rise automatically in 2010—just in time to endanger their two-year recovery? Deferring those tax increases permanently would be more bullish, as would a reduction in the corporate tax rate. At the very least, regulators should change the mark-to-market rules so that companies do not have to hold fire sales of their assets to meet capital standards.

Obama has assembled as solid a team as those of us who do not share his worldview could reasonably expect. It is his aides' views, not their competence or sobriety, that we question. If his economic team fails, it will not be because of factors specific to Obama but because the Democratic party as a whole was not up to the formidable challenge.

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AP

■ COVER STORY ■

Our Deflated Future?

Probably not

JOHN STEELE GORDON

ALTHOUGH inflation has been America's main economic problem for the entire post-war era, a number of economists think *de*flation is the biggest threat now. This is a measure of how severe the economic crisis has become in recent months.

What, exactly, are inflation and deflation? Simple: changes—downward and upward, respectively—in the price of money.

Money is just a commodity, like pork bellies, legal services, or magazines. And like all commodities, money is subject to the law of supply and demand. If the supply increases relative to demand, the price goes down; if the supply decreases, the price rises.

But money is a very special commodity. In a modern economy, money is almost always found on one side of a transaction. Further, money is the unit of account, the commodity by which all other commodities are measured.

Mr. Gordon is the author of *An Empire of Wealth: The Epic History of American Economic Power* (HarperCollins, 2004).

Because money is such a special commodity, we have a special word for a fall in its price: *inflation*. While the word is surprisingly modern (it was first used in this sense in 1864), the reality goes back to the earliest days of money itself. Roman emperors in the third century seriously debased the coinage, so the people, no fools, demanded more and more coins for their goods and services. Prices rose by 1,000 percent over 20 years.

When inflation occurs, government is the usual suspect, but it's not always guilty. In the 16th century, gold and silver brought over from the New World greatly increased the European money supply, and prices quadrupled over the course of the century.

Inflation is harmful for a number of reasons. For one, it tends to feed on itself: As prices rise, workers demand higher wages. When companies pay higher wages, they pass the costs to their customers through higher prices, which prompt calls for still higher wages. Also, because loans are denominated in the currency that is inflating, their value decreases proportionately. So lenders demand ever higher interest on them.

Of course, it's an ill wind that blows no one good. Inflation is great for those who have already contracted debts, because they can pay back those debts with cheaper money. This is just as true of the federal government as it is of someone with a mortgage: In the 1970s the national debt nearly tripled in dollar terms, but because of roaring inflation that reached into double digits toward the end of the decade, the debt actually declined as a percentage of nominal GDP.

If an inflationary spiral gets out of control, the results can be devastating. In 1923, the German government was issuing bills in denominations as high as a hundred trillion marks, and even these bills bought nearly nothing. This wiped out the financial assets of the German middle class as their savings became worthless.

But assuming there is the political will to do it, inflation can always be stopped. Paul Volcker, then chairman of the Federal Reserve, proved that in 1981–82. The Fed sharply raised interest rates and increased the amount of money banks were required to hold in reserve. This damped down lending, and thus demand. The economy cooled, and the inflation subsided. As is often the case, this was a painful process: Unemployment reached 10.8 percent in November 1982, the highest since the Great Depression.

Deflation can be as harmful as its opposite—though, just as inflation is good for debtors, deflation is good for creditors, up to a point. Deflation often results when a credit crunch causes a drop in the money supply. Here's how that process unfolds.

Today, banks create most money, and do so by making loans. Say you go to the store and put the cost of a flat-screen TV on a credit card. The bank that issued the card is quite literally creating money, rather than just transferring money, because loans are assets to a bank: By loaning you the money, it is creating an asset for itself while its liabilities (its deposits)

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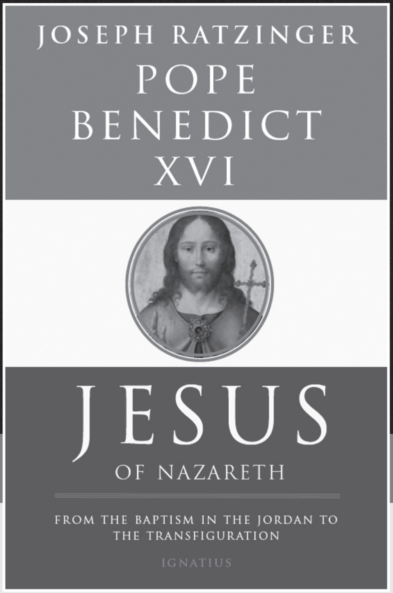
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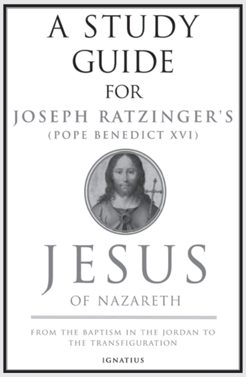
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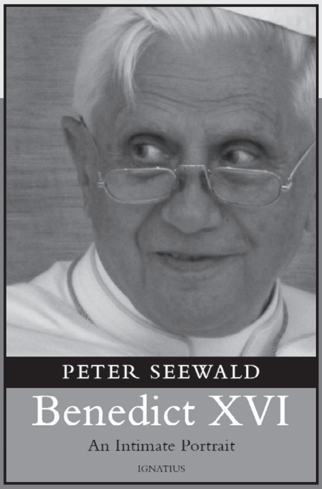
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When banks face a spate of bad loans or have to write down the value of questionable assets, they often must curtail credit to stay within capital and reserve requirements. They call in demand loans (as the name implies, these are loans the borrower must repay on demand) and cut credit lines. If enough banks do this, a credit crunch develops, and since credit is what creates most money, the money supply drops. Companies and people then buy less, cutting demand for many commodities. As demand falls, so do prices. As companies selling those commodities take in less money, they cut the number of employees and, if things get bad enough, cut wages for those left. This further cuts demand, and a deflationary spiral begins.

Deflation is much harder to fight than inflation. Inflation can always be stopped by raising interest rates sufficiently and taking other actions to reduce the money supply, but the standard remedy for deflation—lowering interest rates—can go only so far. Interest rates, after all, cannot fall below zero. Banks will not pay you to borrow money.

Japan, for several years after its stock-market and real-estate bubbles burst toward the end of 1989, fought deflation with what were effectively 0 percent interest rates. It did not work. Deeply ingrained habits of Japanese consumers kept demand down (they tend to save more money than consumers elsewhere), while people remained wary of putting their money in the many Japanese banks with bad loans on their books.

The government also tried to prime the pump with massive infrastructure projects and aid for insolvent corporations. This did little more than give Japan the highest national debt as a percentage of GDP of all major countries. Japan's debt today is about 170 percent of GDP, versus 72 percent for the U.S. No wonder the Japanese call recent years "the lost decade."

As for America, it's unclear how big a problem deflation will be. If we are in for an extended period of deflation, it won't be the first: In the depression of 1837–43, the money supply fell by about a third. After the Civil War, rapid industrialization created huge efficiencies of scale, causing lower prices, while the gold standard kept the money supply relatively flat. The late economist Milton Friedman calculated that prices fell about 1.7 percent a year between 1875 and 1896.

One modern factor that could cause deflation is the housing-bubble collapse, which has certainly created a credit crunch. Default rates on mortgages rose and the prices of mortgage-backed securities declined markedly, leaving banks no choice but to reduce credit sharply. In September, as once-mighty financial institutions such as Lehman Brothers and Wachovia Bank became insolvent, many banks refused to lend at all, even to other banks overnight. The whole credit market began to seize up.

Many commodity prices have declined sharply, especially that of oil, which dropped by an astonishing two-thirds from its high in July. Altogether, prices declined by 1.8 percent in October, the sharpest one-month drop in more than 60 years.

There are reasons for optimism, however. Certainly the federal government will not make the same mistakes that turned the recession of 1929 into the Great Depression—the Fed kept money tight to fight inflation and defend the gold standard in 1930 and '31, even after the money supply began to fall. In other words, the Fed treated the patient for fever even after he had begun to freeze to death. And Congress raised taxes substantially in the summer of 1932 to help balance the budget. The economy, already contracting sharply, went into free fall.

Further, while the federal government spent about 3 percent of annual GDP in 1930, today the figure is over 20 percent. This, together with such safety-net programs as unemployment insurance, acts in the economy the way a flywheel does in a machine, inputting energy to keep the machine cycling steadily even when other factors work to slow it down.

And Americans are not like the Japanese, with their high savings rate. Americans are optimistic by nature and very consumption-oriented. They may hunker down for a while, but not for long if they have a choice.

So, most economists predict no more than a sharp recession, such as the one the country experienced in 1981–82. Those predictions, of course, are predicated on the situation's stabilizing. If there is another wave of major bank failures or a full-blown crash on Wall Street, all bets are off. **NR**

■ **COVER STORY II**

The Big Three's Big Three

Severance, pensions, and health benefits

STEPHEN SPRUIELL

Moraine, Ohio

When I first ask Vinny if he can spare a few minutes to talk to a reporter, he reacts as if I'd offered to sell him a genuine Rolex watch. "Oh no," he says, backing away. "I've been a victim of media bias before."

I don't know what passes for media bias in Moraine, Ohio, so I proceed with caution. I offer a few assurances, and finally Vinny, proprietor of Vinny's Bar and Grill, agrees to talk to me—but not until the lunch rush subsides. He turns away and darts around the room like a gecko in cargo shorts, greeting every customer in the restaurant.

And for a restaurant in a town that's supposed to be dying, it's a pretty good crowd. As it thins out, Vinny sits down and tells me about his bad experience with the media. "*Good Morning America* called me out of New York City because they were coming in to do a story," he says. He assumed they picked this small town outside of Dayton for the same reason I did: General Motors is closing an assembly plant just down the road on December 23, and Moraine is bracing for the economic impact.

About a month before the election, the people from *GMA* came to Moraine and interviewed Vinny, but they cut him out of the segment that aired. He thinks it's because they didn't like his politics. "I said . . . the Democrat would probably help me the most today, but life is about potential, so the candidate on the Republican side, I feel, would give me the most opportunity for gain in the future," he says. "But I never got on."

In ABC's defense, the segment that aired wasn't biased—it was just trite. It was a standard election-year piece in which voters in a hard-hit town were asked which candidate would help them the most, then neatly divided into stock categories ("wants change" vs. "values experience"). Joel Morrow, a GM employee who worked at the Moraine assembly plant for 14 years, told ABC that he had never voted for a Democrat, but that he planned to vote for Obama because "I feel like [the Democrats] are for the middle class." Another GM employee said he supported McCain because "I'm looking for experience."

The only explanation ABC offered for the Moraine plant's demise was that high gas prices had killed demand for sport utility vehicles, which were all the plant produced. This is true as far as it goes. But high gas prices are not the reason GM, Ford, and Chrysler are now begging Congress for a stay of execution. The Big Three have asked for $25 billion in loans, which could keep them solvent for perhaps another year, and the Democrats seem inclined to give it to them. But a deeper look at what's happening in Moraine reveals why such an approach is doomed to fail.

Any successful business must be able to respond to fluctuations in demand for its products, but GM's job-security agreements with its unions make that process burdensome and costly. The workers at the Moraine plant belonged to IUE-CWA, an electrical workers' union. As a result of the plant closure, IUE-CWA was able to negotiate buyouts of $70,000 to $140,000 for any worker who voluntarily quits. Other workers were made eligible for early retirement.

A few days after the election, I run into Morrow in the parking lot of the Moraine plant. (When I tell him I am a reporter, he says, "Aw, Christ.") I ask him what's going to happen to the plant's 1,400 remaining employees. "More than 50 percent are taking the buyout, maybe a third are doing some sort of retirement, and some are staying and hoping to transfer," he says. He says he's hoping to transfer.

GM employees who stay with the company and are laid off will qualify for GM's supplemental unemployment benefits, meaning that GM will make up the difference between their former wages and their state unemployment checks. When those checks run out, GM will pay these workers 95 percent of their former wages for up to two years, depending on seniority. Workers with at least ten years of seniority are eligible for the Job Opportunity Bank Security program. This is the notorious jobs bank that allows laid-off workers receive their regular hourly pay to sit around and work crossword puzzles or read the paper. If GM offers them an opportunity to transfer to another plant, they have the right to turn down a limited number of such offers. And if no offer is made, they can stay in the jobs bank until they retire. GM currently has around 1,400 workers nationwide in the jobs bank.

Peter Morici is a professor of international business at the University of Maryland. In late November, he testified before the Senate Banking Committee, alongside the CEOs of the Big Three automakers and United Auto Workers president Ron Gettelfinger. "The real problem here is that [Banking Committee chairman Chris] Dodd doesn't understand the scope of the severance payments that the UAW gets," Morici tells me. "They go in the jobs bank and they stay there forever. My feeling is that [the Big Three] are at fault for letting the jobs bank continue after these last labor negotiations and agreeing to $105,000 buyouts. The whole situation is absurd."

John Heitmann, an automotive historian at the University of Dayton, agrees. "We can't really compete when we have those kinds of contracts," he says. "It's the health care, it's the seniority, and it's the work rules. In flush times, when life was good and you could sell many different vehicles and particularly trucks at very high profits, GM could survive like that. But it was just a matter of time before things caught up with them."

The Big Three and their unions argue that in 2007 they signed new contracts bringing wages and benefits down to more realistic levels. Once the health-care provisions of these contracts take effect in 2010, they say, they will be out from underneath the crushing liabilities that have saddled them with so much debt. "They talk about all the things they gave up," Morici says. "But their contracts are so complex, you could give up half the things in the contracts and they would still be burdensome."

The new contracts took steps toward closing the compensation gap between the Big Three and their foreign competitors, but left in place the job-security guarantees and work rules that have rendered the Big Three sclerotic and unable to adjust to shifts in demand. Imagine the U.S. auto industry as an emergency-room patient with a severed artery and cholera. The 2007 contracts stopped the bleeding, but the Big Three are still very sick.

The cure, according to Morici, is bankruptcy. "My feeling is that these guys haven't adequately explored Chapter 11, because they don't want to," he says. Bankruptcy would force concessions from the automakers' unions, but the Big Three are pushing hard to avoid it. They claim that bankruptcy would necessarily mean liquidation and thus economic calamity. To back this up, they produce surveys purporting to show that 80 percent of Americans would not buy a car from a bankrupt auto company, for fear that the company would not be around to service the warranty or provide parts.

Morici counters that warranties could be secured by third parties and parts purchased from aftermarket dealers (companies that build parts solely for use as replacements). "You'd probably have more than one company in Chapter 11," he says, "and people will quickly realize that they're going to emerge much as the

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The "Japanese transplants" are the factories that Honda, Toyota, and Nissan have built in the midwestern and southern U.S. whose non-union workforces and proximity to growing markets position them better to weather the economic storm. Bankruptcy for the Big Three could clear the way for foreign automakers to purchase some of their assets, and the media have buzzed with speculation that some Chinese firms might do the same. Heitmann recalls the fate of Leyland Motors in Britain, which was nationalized and then broken up in the 1970s and '80s after a failed bailout attempt.

"There are GM lines—the Corvette, the Chevy, possibly the Saturn—that are going to continue," Heitmann says. "But who owns them is going to be really interesting. It could be like in Britain, where Morris Garage—MG—ended up [being bought by] a Chinese firm [and] called Modern Gentleman over in China." The possibility of a Chinese firm's buying up GM product lines troubles Heitmann, but it also belies the notion that bankruptcy would mean an automatic liquidation of the U.S. auto industry.

Even so, the Big Three are going to have to reduce capacity in the face of shrinking demand, and some communities like Moraine are going to have to deal with plant closures. Economic resources will be allocated to more efficient uses as part of this process, and resourceful communities will focus on the future. Moraine is already looking for ways to redevelop the plant site once GM is finished decommissioning it. Vinny, the small-business owner in Moraine, is optimistic that it could be turned into a mixed-use project that will bring new business to the area.

"This is still not a dead zone, contrary to what everybody thinks," he says. GM and its suppliers may be leaving town, but that just means he has to work harder to promote his business by hiring bands and courting the University of Dayton basketball crowd. "For me to stay out there, I've got to do forward thinking," he says. "I'm the kind of person that feels for people's plight. I want to help people who want to help themselves. However, nobody is going to help me but me and my customers." **NR**

■ **COVER STORY III**

Wrong Road

On transportation, some folks don't stop thinking about yesterday

SAM STALEY & ADRIAN MOORE

Interest in the nation's infrastructure is rising to a level not seen since the debate over the Interstate Highway System in the 1950s. Propelled by the prospects of a deep recession, President-elect Barack Obama is pressing for major new federal spending to boost employment. He is committed to a major new economic stimulus, including potentially hundreds of billions of dollars for the nation's roads, highways, airports, ports, and transit systems.

Keynesian ideas have received a new lease on intellectual life. Prominent economists, including *New York Times* columnist Paul Krugman, have exhorted the new president to be bold. Krugman is calling for a stimulus package of $600 billion or more.

Infrastructure spending is slated to play a central role in this government-activism effort to jump-start the economy. In theory, this makes sense: Infrastructure is a "hard" asset and it's crucial to economic growth. With new composite materials and engineering techniques, the bridges and roads we build now could be around for centuries, not just decades.

Construction jobs are also high paying, on average—$22 per hour, as opposed to the national average of $18. According to the new Keynesians, these jobs will therefore be especially helpful to the overall economy, by dumping millions of dollars into the hands of consumers.

Proponents believe that this infrastructure spending will also be very useful through its direct creation of jobs. The American Association of State Highway and Transportation Officials (AASHTO) claims that every billion dollars spent on infrastructure creates 35,000 jobs. A $50 billion spending spree would, based on this estimate, produce 1.75 million jobs. That would more than make up for the number of jobs that are expected to disappear in 2009.

Unfortunately, this optimism is based more on faith than on experience. In fact, infrastructure spending is a lousy way to bring a globally competitive services-based economy out of recession. One reason should be obvious: America's economic base is not founded on construction workers and their supervisors. It's no longer dependent on the rote assembly-line work that made the U.S. manufacturing economy the envy of the world. Since 1980, the U.S. manufacturing sector has shed 5.5 million jobs—but the overall economy has added 50 million service jobs.

America's economic future lies in creating large numbers of jobs in advanced services, high-tech manufacturing, and information technology. The 75,000 workers who face losing their jobs as Citigroup pares its payroll to stay solvent won't be looking for work rebuilding and repairing the nation's highways. And they shouldn't. Their economic future lies in a dynamic, growing, and innovative financial-services industry that can compete globally.

This is not to say that infrastructure needs should be neglected in policymaking. Quite the opposite: A wealthier people values mobility, and is willing to pay for the technology and public services necessary to get from point A to point B faster. It is willing to devote a larger share of its income to obtain these higher service levels. Currently U.S. families spend about one-fifth of their income on transportation. Joel Schwartz, an analyst with the American Enterprise Institute, notes that automobile ownership—the major source of modern-day mobility—also increases with income. "In a wide range of economic, policy, and cultural contexts," he says, "people the world over

Mr. Staley is director of urban and land-use policy at the Reason Foundation and co-author, with Mr. Moore, of *Mobility First: A New Vision for Transportation in a Globally Competitive 21st Century*. Mr. Moore is vice president of research at the Reason Foundation and a member of the National Surface Transportation Infrastructure Financing Commission.

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By John Fleming

They have been stored away for years, gathering dust in your attic or on the top shelf in your closet. You would never dream of getting rid of them, but you're not sure what else to do with your vintage vinyls and cassettes. You would love to be able to listen to them again, but pulling out the old record player (which may or may not still work) is not worth the hassle. In addition, you don't have a cassette player any longer.

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choose automobiles for travel and suburban living as soon as they become wealthy enough to afford them. Wealth is the single greatest determinant of automobile ownership and driving.” This is true even in nations where cars (and gasoline) are taxed at high levels.

These auto owners are willing to spend a lot—but they spend carefully. And they are right to worry that the government does not show equal care in how it spends transportation dollars. Research increasingly shows that our investment in traditional infrastructure isn’t getting the bang for the buck it once did.

In the mid-20th century, the need was clear: connect our urban areas, provide high-speed freight corridors for goods shipment, and get workers to their jobs (often in downtowns). We created the “hub and spoke” urban highway network as a result, and it worked. By knitting together the nation’s major urban areas, the federal infrastructure investment reduced shipping costs and made commuting much easier, thus dramatically improving productivity. Cliff Winston at the Brookings Institution estimates that the rate of return from highway investments to business during the heady days of the 1960s and 1970s approached 15 percent.

Since then, however, the effectiveness of infrastructure spending as a way to boost productivity has declined dramatically. Why? The short answer is that we no longer live in the 1950s.

Look at contemporary American travel patterns. Suburb-to-suburb commutes, notes Alan Pisarski in *Commuting in America III*, now account for the largest share (46 percent) of overall commuting. Traditional suburb-to-central-city commutes make up just 18.5 percent of the total.

Even more telling, “pure” commuting trips—those that involve a straight shot from home to work—make up less than one-fifth of overall commuting. Most trips are combined with other trips, “chained” with dropping kids off at daycare, running to the store or drycleaner, or even meeting clients outside of a normal workplace.

More broadly, the largest single category of all travel, constituting 42 percent of the total number of commuting and non-commuting trips, is “other.” In short, our travel patterns have become so dynamic, complex, and customized that we can’t even categorize them in a meaningful way.

We’ve already captured the low-hanging fruit with the existing network. Our immediate challenge now is to maintain the system and enhance it in economically meaningful ways. That’s not cheap. Our nation is underfunding its *existing* infrastructure to the tune of at least $80 billion per year. We need to be spending at least $125 billion per year on roads, highways, airports, and ports just to tread water on economic productivity.

Our competitive challenge is to invest in the right infrastructure in the right place and at the right time. A major infrastructure-spending program initiated in the heat of a “crisis” will not bring the benefits of a well-planned overhaul of our transportation networks. New infrastructure spending has to be prioritized in such a way that the economic benefits are both transparent and meaningful. Simply parachuting dollars into the economy won’t generate the benefits our economy needs and may confound efforts to put us back on the path toward economic sustainability.

Fortunately, we have the tools and the incentive to embrace the innovation necessary to reestablish the U.S. as a world leader in infrastructure investment. Many of President-elect Obama’s transportation advisers are poised to embrace many of these innovations, if they are appointed to key posts in the administration.

Central to the reform efforts will be an expanded role for technology and the private sector in providing new, high-quality infrastructure. Hundreds of billions of dollars are available worldwide for infrastructure investments in the U.S., an unintended but happy side-effect of the “flight to quality” brought about by the collapse of world financial markets. As traditional financial products are curtailed, investors are still looking for profitable investments, and transportation-infrastructure investment is a leading contender.

Improvements in technology make it easier for us to tie use of a road to payment for the road. We can now do electronic toll collection with no stopping at tollbooths. The technology gives us the ability to change the toll in accord with the volume of traffic, which helps us match price to demand and reduce congestion; and it gives road managers better information on which roads need quality improvements.

Travelers on the 91 Express Lanes in Orange County, Calif., and high-occupancy toll (HOT) lanes in Minneapolis, San Diego, Denver, and Houston are already experiencing this newfound efficiency, and the economic benefits of 21st-century highway technology and management. Similar innovations will be improving the travel experience for (and increasing the productivity of) travelers in Washington, D.C., and Atlanta in the near future.

Experience in China, Australia, India, France, Spain, and elsewhere has demonstrated the importance of letting the private sector take the lead in proposing, developing, and implementing these solutions through long-term agreements with governments called public-private partnerships (PPPs). The federal government will also have to embrace the experimentation already occurring in the states—and resist temptations to reinvigorate an overbearing federal presence that is more interested in centralizing its power and consolidating its political turf than in creating a truly competitive, modern transportation network.

Transportation policy may be one area where an Obama administration will leave a positive legacy for the nation and its cities. While Republican governors such as Rick Perry in Texas and Mitch Daniels in Indiana have staked out ambitious and politically courageous positions supporting PPPs, Democratic innovators include former Philadelphia mayor and Pennsylvania governor Ed Rendell, Chicago mayor Richard Daley, and Denver’s mass-transit innovator, Cal Marsella.

The alternative is federal retrenchment that harkens back to Depression-era thinking about transportation policy and economic stimulus—and that would put the nation at serious risk in a globally competitive economy. Policymakers on both sides of the aisle will need to pay attention to these global economic realities and the way mobility enhances productivity, as they chart a new federal role for guiding infrastructure investment in 2009 and beyond. **NR**

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Adolf Hitler.

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About Your Professor

Dr. Thomas Childers (Ph.D., Harvard University) is Professor of History at the University of Pennsylvania. His teaching awards include the Ira T. Abrahams Award for Distinguished Teaching and Challenging Teaching in the Arts and Sciences, the Richard S. Dunn Award for Distinguished Teaching in History, and the Senior Class Award for Excellence in Undergraduate Teaching.

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■ COVER STORY IV

Sarko's Bite

The French president turns out to be French

ANDREW STUTTAFORD

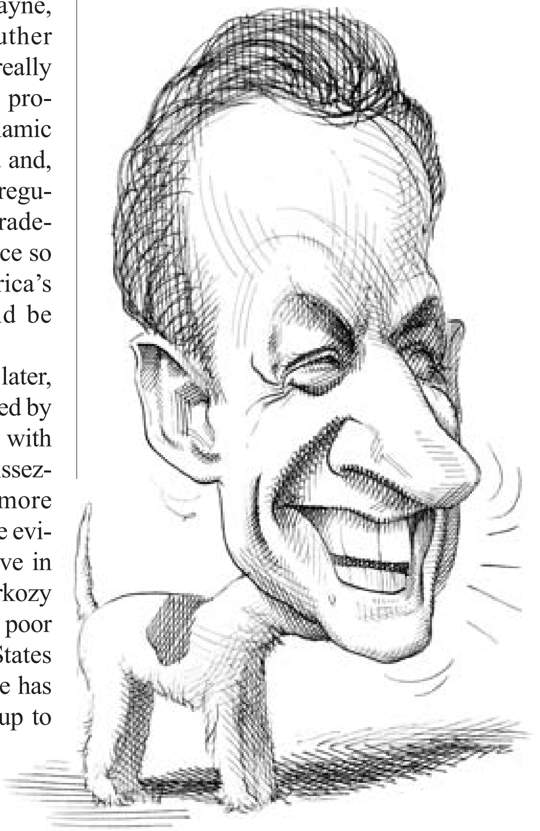
It is a ritual as frustrating, as funny, and as familiar as Charlie Brown, Lucy, and the football. A new "right wing" French president is elected, vowing reform, and American conservatives swoon. First there was Jacques Chirac. Older, sadder, and wiser folk may still recall the excited talk about his summer at Harvard, his stint as a soda jerk at Howard Johnson's, and, *naturellement*, a girl from South Carolina. The Frenchman liked us! He really liked us! He wasn't Mitterrand! No, he wasn't, but . . .

After Chirac, Nicolas Sarkozy. The new president's first vacation was spent not on the Côte d'Azur, but in Wolfeboro, N.H. A few months later "Sarko l'Américain" addressed a joint session of Congress, spoke warmly of the American dream, and name-checked John Wayne, Marilyn Monroe, and Martin Luther King. The Frenchman likes us! He really likes us! He isn't Chirac! Sarkozy promised a more robust approach to Islamic extremism both at home and abroad and, more daring still, an assault on the regulations, overspending, taxes, and trade-union privilege that have made France so much less than she could be. America's conservatives cheered. Fries could be French again.

That was then. Less than a year later, Sarkozy took the opportunity presented by the financial meltdown to announce, with rather too much glee, the death of laissez-faire, a declaration made all the more surprising by the fact that there is little evidence that laissez-faire had been alive in the first place. Perhaps that's why Sarkozy is so keen to do a Van Helsing on the poor doctrine's corpse. Like the United States and most other major nations, France has put together a massive (in its case, up to €360 billion) rescue package for its banks, but with a characteristically French twist: It is insisting that the banks that benefit from this largesse increase their lending by a designated amount (3 to 4 percent) over a given twelve-month period, a mandate almost guaranteed to wreak further financial havoc. "The state," thundered Sarkozy, "is back."

It had never been away. But the state's command over the French economy will become even more wide-ranging with the establishment of a new strategic-investment fund (up to €20 billion, although larger numbers have been mentioned) to protect key companies from the unwanted attentions of wicked foreign predators. Somewhat more conventionally, the government will increase what it spends on *contrats aidés*, which will subsidize an additional 100,000 jobs next year. With carrot comes stick: Sarkozy has cautioned companies against using the crisis as a cover for layoffs: "Those who want to play that game be warned: The government will be ruthless." The state is indeed "back."

So far, so French. Much more worrying is the extent to which Sarkozy's revenant state is now looking to expand its reach internationally. Sarkozy is busy telling anyone who will listen (and quite a few who won't) that the financial crisis has demonstrated the need to establish a "clearly identified economic government" for the eurozone. Quite what that might mean is not easy to identify, but some clues can be found in Sarkozy's suggestion that equivalents of France's new strategic-investment fund be set up throughout the zone. As the French president told the EU's parliament in October, he didn't "want European citizens to wake up" and find out that their companies had been taken over by wily "non-European" investors who had taken advantage of low share prices to snap up a few bargains. To Europe's last serving Thatcherite, Czech president Vaclav Klaus, the thinking behind the Sarkozy scheme reeked of "old socialism." It's difficult to disagree.



ROMAN GENN

For now the idea of constructing a Maginot Line against foreign capital has found few takers elsewhere in the EU, but an undaunted Sarkozy is taking his crusade against the supposed "dictatorship of the market" even farther afield. The French president was a key figure in pushing for the recent G-20 summit in Washington. In itself, the idea of a meeting involving more than the usual G-8 suspects was no bad thing. Financial panics recognize no borders. That said, final responsibility for managing such crises must remain at the national level for reasons of common sense, practicality, and—critically—sovereignty.

Strengthening international cooperation in this area will be a positive development, but only so long as efforts are organized multilaterally. On that basis, the G-20's search for a closer consensus on matters such as accounting standards, clearing facilities for credit-default swaps, banks' capital-adequacy ratios, and the role of rating agencies is something to be welcomed, not feared.

The same is true of the mooted development of an IMF-run early-warning system. Another of the summit's themes, boosting the existing levels of cooperation between different national regulatory authorities, also makes obvious sense, as do, in theory, plans to create (pompously named) "supervisory colleges" for all major cross-border financial institutions. Staffed by regulators from the various relevant jurisdictions, these bodies would

Mr. Stuttaford is a contributing editor of NATIONAL REVIEW ONLINE.

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be designed to provide an additional degree of surveillance and, it is hoped (the details are tellingly scant), be in a position to head off crises before they arise. The focus of international coordination in this area would thus shift from the reactive to the proactive. These are all changes that, if sensibly handled, could be useful steps forward.

If Sarkozy gets his way, sensible is one thing they won’t be. In no small respect this is a function of his personality: restless, kinetic, opportunistic, and incapable of resisting either the temptation of *la grande geste* or, as he sees it, the splendor of his own genius. We are speaking, after all, of the architect of the proposed “Mediterranean Union.” (You’ve never heard of it?) In the endearingly acid words of a woman quoted in *Dawn, Dusk or Night* (playwright Yasmina Reza’s magnificently offbeat account of a year spent with Sarkozy on the campaign trail): “Nicolas is too high-strung. . . . He is four inches too short and that undermines his charisma on the international level. Mitterrand, you couldn’t tell he was short because he was placid, whereas Nicolas is a fox terrier running everywhere, barking.”

The *hyperpresidént* has, he undoubtedly believes, got the hyperpower on the run.

But it’s possible to detect patterns in all that motion, and one of them is the *hyperpresidént*’s bathyscaphe-deep distrust of the free market. Sarkozy’s forlorn American conservative fans would have done well to read his *Testimony* (2006), a manifesto for the modernization of France that is, at its core, technocratic, profoundly dirigiste (“It seems to me to be perfectly reasonable . . . that a profitable company not be allowed to benefit from a cut in taxes if it does not raise salaries”), Colbertist (“It is not illegitimate for the finance minister to promote the creation of national . . . champions”), neo-protectionist (“I propose that exports from countries that do not respect environmental rules be taxed according to how much they pollute”), and, in its dismissive references to Wal-Mart’s “brutal and unacceptable” business practices, “stock market capitalism,” and “speculators and predators,” not particularly friendly to the American way of making a buck.

Strongly nationalist though he is, Sarkozy is too shrewd to believe that France can go it alone. So, like his predecessors, he tries to manipulate the EU’s structures in ways intended to produce a Europe that looks like France, a Europe where France can be France, a Europe ideally (in Sarkozy’s view) stripped of its “dogmatic commitment to competition” and what he sees as a race to the bottom in fiscal and social policy. Translation: The Irish should be forced to raise their taxes so that the French aren’t forced to cut theirs. All in the name of European unity, of course.

It’s easy to see how the economic crunch has offered France (acting in conjunction with a good number of other nations) a similar opportunity—to remake the world’s financial system in something much closer to its own image (all in the name of ending the crisis, of course), which would have the added bonus of diminishing America’s economic dominance and, with it, Washington’s power to set the global agenda.

Yes, financial reform, tougher domestic regulation, and smarter international coordination are all required, but these should be accomplished through incremental changes. There’s no need to tear up the old rulebook. Any transfers of authority to new transnational authorities should be kept to an absolute minimum, a priority that is difficult to reconcile with all the chatter (from Sarkozy and others) of a new Bretton Woods.

The French president left the G-20 summit reportedly claiming that the “animal spirits” of American capitalism had been tamed and that the days of a single currency (the dollar) are “over.” The *hyperpresidént* has, he undoubtedly believes, got the hyperpower on the run. Rubbing yet more salt in Uncle Sam’s wounds, Sarkozy then surprised everyone (one European diplomat was reported by the *International Herald Tribune* as describing the announcement as “amazing”) with news that he was convening a conference in Paris (co-hosted by the inevitable Tony Blair) in early January to, in Blair’s words, “define a new model of capitalism.”

The fox terrier, it appears, does not just bark. He bites. **NR**

■ COVER STORY V

Oogedy-Boogedy in Pinstripes

Feel like blaming someone for the market crash?

KEVIN D. WILLIAMSON

Everybody’s looking for somebody to blame for the drama in the credit markets. Here’s a promising villain: Chester Floyd Carlson, a fabulously wealthy Wall Street fat cat whose business helped undermine the independence of the major credit-rating agencies and enabled the massive violation of intellectual-property laws. Never heard of him? He’s been dead since 1968, but his invention—photocopying—made him a rich man, built Xerox, and incidentally changed the way bond-rating agencies do business.

Before the 1970s, ratings agencies charged investors for access to information about the creditworthiness of debt issuers. If an investment house was thinking about picking up $10 million worth of XYZ Corp. paper, it would pay a fee to Moody’s or Standard & Poor’s in exchange for detailed information about the finances of XYZ Corp. The incentive structure was good: Ratings agencies depended on their reputation for providing accurate, reliable, unbiased information, and their clients, who were putting their own money at risk, had an incentive to demand appropriate caution.

But by the 1970s, American businesses were in the throes of an information revolution enabled by the genius of Carlson, who had been a patent attorney before a combination of public-library research and kitchen-sink experimentation earned him a place alongside Thomas Edison in the pantheon of great American inventors. Suddenly, documents cost a lot less to reproduce and distribute, people were ignoring copyright left and right, and credit-ratings agencies found themselves in much the same position as music labels at the advent of file-sharing: worried that

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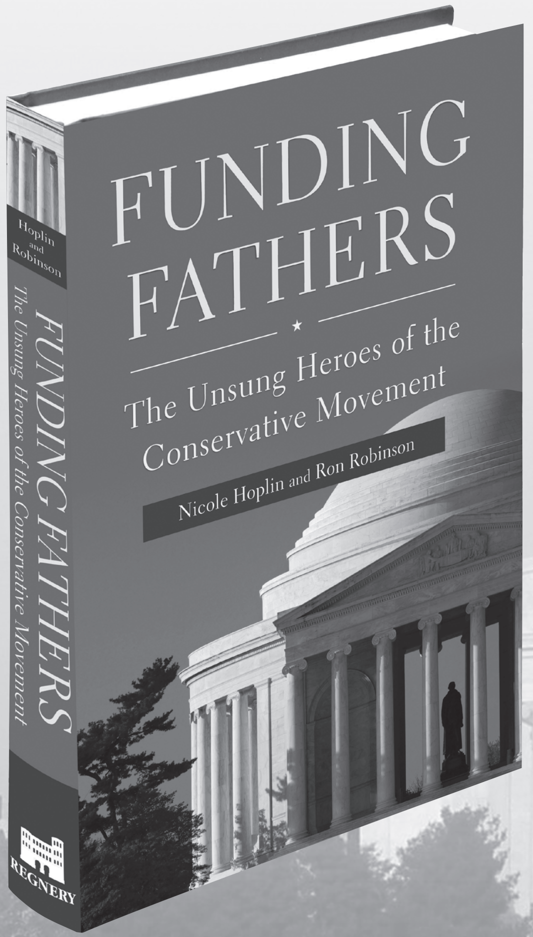
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The ratings agencies responded by changing their business model: Instead of charging investors for access to credit information, they began charging debt issuers to rate their bonds. Borrowers, not lenders, were footing the bill. What this meant, in practice, was that bond-issuers were paying ratings agencies to certify their bonds as "investment grade," a rating that allows banks, insurance companies, and other regulated financial institutions to invest in them. This created a radically different incentive structure: If an agency alienated a big customer with a low credit rating, it stood to lose millions of dollars. The ratings agencies deny that this presents a problem, but the evidence argues otherwise. Consider this now-infamous instant-message exchange between two Standard & Poor's employees:

"This deal is ridiculous."

"I know it definitely does not capture half the risk."

"We should not be rating it."

"We rate every deal."

"It could be structured by cows and we would rate it."

The cows have come home to Wall Street, and the manure is piled high. That remark about cows found its way into congressional testimony. Rep. Henry Waxman, no friend of the free market, now has the raters in his crosshairs.

While there has been much derision of deregulation at the hands of Ronald Reagan and Phil Gramm, Wall Street remains a highly regulated place. From banks to brokerages, from blue-chip stocks to corporate bonds, moving money around is an activity in which Uncle Sam takes an active interest. There's a whole rogues' gallery of regulators out there—the SEC, the Fed, and the Commerce Department, as well as international players, the Basel Committee on Banking Supervision most prominent among them. Banks and similar regulated financial institutions are required by law to put their money into "investment grade" assets. And the question of whether a security is "investment grade" depends upon the evaluation of a very small number of elite firms given the federal government's imprimatur. These credit-raters are called "nationally recognized statistical rating organizations"—NRSROs—an obscure designation for firms that are anything but: Moody's, Standard & Poor's, and Fitch are the big dogs in the industry.

Lawrence White, a professor at NYU's Stern School of Business, offers an economist's deadpan assessment of the situation: "There was insufficient attention to risk." *Risk* isn't always easy to get your head around. The bank and insurance regulators in the 1930s and 1940s tried to make things easier for themselves by insisting that the institutions they oversaw keep their money in "safe" assets, and the SEC wanted the same for the broker-dealers under its jurisdiction. So in 1975 it created the NRSRO designation and immediately conferred it on Moody's, S&P, and Fitch. A few new players have come and gone over the years, but these three have basically owned the market. The SEC didn't mean to create a cartel—like much that goes wrong in public life, it was an unintended consequence of well-intended regulation. "They've got a lock," says White, "a protected oligopoly. They think, 'No matter what we do, we're going to get paid.' And it's even more so in the case of structured finance."

"Structured finance" means things like collateralized debt obligations, mortgage-backed securities, credit derivatives—all the head-clutchingly complex stuff that has bled out of the *Financial Times* into *USA Today*. The role of the credit-ratings agencies in structured finance is particularly important, White explains, because those assets are more difficult to value than plain-vanilla corporate bonds.

"General Motors has public information, there's the annual report, there's newspaper stories, there's lots of stuff you can gather to assess the company, and you can look it up," says White. "Structured finance is all about the underlying collateral, so you have much more limited information. It's a dense and complicated story, much harder to absorb than the balance sheet and operating statement of General Motors."

Nobody thinks the ratings agencies did a very good job in the run-up to meltdown. What isn't clear is whether they are capable of doing a better job.

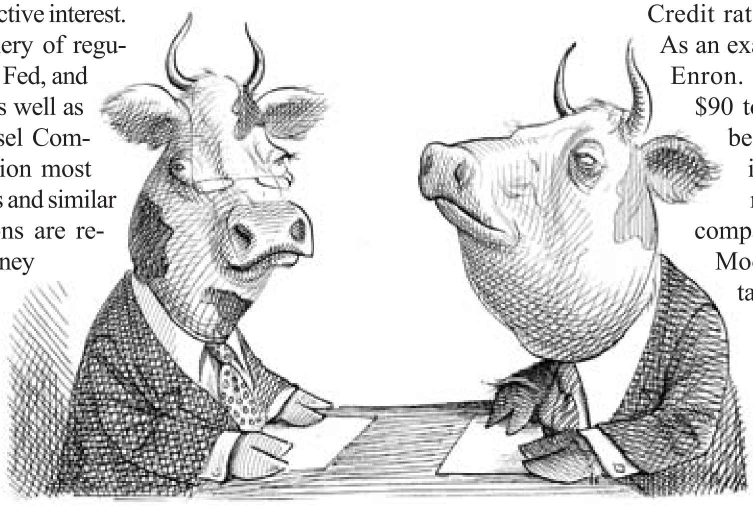
"Most people who follow this in an objective way think that these ratings are useless. They're not a good indicator of corporate performance, and they're not very timely," says Jonathan Macey, a professor of securities law at Yale. "What we're talking about here is the modern equivalent of a witch doctor. They purport to cure people or, in the case of agencies, to figure out which securities are good. And they really can't do that. The ratings agencies are a regulatory cartel. Most people say they have to do a better job, but there is no way they're going to do a better job, for the same reason the witch doctor isn't going to do an appendectomy: They don't have the capability, incentives, or training. If these guys could really pick out assets, they'd be working at hedge funds."

The best evidence against the ratings cartel is its own performance.

"Credit-rating agencies aren't going to be able to outperform the capital market when it comes to seeing the future," Macey says. "They're just slapping on a rating, and the market will act much more efficiently by slapping on a price. Share price is an advance leading indicator. Credit ratings are a lagging indicator."

As an example, Macey cites the case of Enron. Enron's stock dropped from $90 to $8.41 a share as its troubles became known, but its credit rating was never downgraded—not until four days before the company declared bankruptcy, when Moody's and S&P got around to taking another look.

So what to do? Macey's answer is to abandon the ratings system and to make the financial institutions themselves directly responsible for evaluating their assets. "In a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world without ratings, I've got to do my own analysis—look at public information, make my own calls," Macey argues. "Others may outperform me, and then I look like an idiot. And that's the huge value of ratings agencies for a bureaucrat at an insurance company or mutual fund: They can say, 'Don't blame me, it was all rated AAA,' even if it's CDO crap."

Because millions or billions of dollars can be made or lost on a credit rating, there is a tremendous temptation to focus on the rating itself rather than on the underlying reality that the rating is intended to represent. This is a classic blunder of mistaking the map for the territory, the model for the thing the model is intended to represent. White and Macey offer variations on the same solution: requiring financial institutions to justify the assets themselves, rather than merely reference the credit rating given to the assets.

It's not clear that regulators are capable of keeping up with the markets, or that the ratings racket can be reformed. When photocopying spurred a radical rethinking of the credit-raters' business model, the regulators were not able to foresee the consequences. And for all their faults, the ratings agencies didn't turn out to be as dumb as the investors themselves, who toward the end were barely distinguishing between risky junk bonds and Treasury bonds.

"The interest-rate spreads between junk bonds and U.S. Treasury issuance of similar durations had narrowed to 250 basis points—two and a half percentage points—as opposed to the 500 or 600, five to six percentage points, that had previously been the norm," White says. "Even these raters were saying this was below investment grade. Why were investors buying? Why were banks lending to private-equity firms and not putting sufficient covenants in? There's something about what was going on in this era. It isn't all greed, it isn't all drinking the Kool-Aid. There's something more. I wish I understood it."

Professor White has spent a lifetime studying these issues and still doesn't understand it. Henry Waxman is a left-wing lawyer representing Beverly Hills and thinks he's got it all figured out. Guess who's going to write the new regulations? **NR**

■ THE CAPITOL

Washington, P.C.

The new Capitol Visitor Center has a shaky grasp of history

JOHN J. MILLER

CARPENTERS follow a simple rule: Measure twice, cut once. The builders of the brand-new Capitol Visitor Center (CVC) might have benefited from a similar adage about checking facts before etching them into stone. Just a few weeks before the opening of their $621 million underground complex on December 2, they were trying to correct a dumb mistake. A major display misidentified the nation's motto as "*E pluribus unum*." In reality, the national motto is "In God We Trust," as Congress established by law in 1956. Anyone who looks closely at the panel in the front of the exhibition hall will see the temporary plaster fix-up job.

Confusion about the motto is the type of innocent blunder a person might make while playing a casual game of Trivial Pursuit, but not the kind of error you'd expect to see chiseled into the hallowed halls of the Capitol. And some conservatives worry that this is more than a routine case of federal incompetence. "There's a terrible movement to rewrite our history and obscure our faith," says J. Randy Forbes, a Republican congressman from Virginia who chairs the Congressional Prayer Caucus, about the CVC.

In September, Forbes and more than a hundred members of the House, from both parties, released a letter to Stephen T. Ayers, the acting Architect of the Capitol: "We have been troubled to learn in recent weeks that some aspects of the new CVC . . . [may] reflect an apathetic disposition toward our nation's religious history." Their efforts have led to improvements, but it's a fight that shouldn't have needed waging in the first place—and even in its aftermath, plenty of problems remain unaddressed.

Last fall, Ayers came under fire for a policy that seemed not merely apathetic toward religion, but actively hostile. A boy from Ohio wanted to give his grandfather an American flag that had flown over the Capitol. He contacted his congressman, Republican Michael Turner, whose staff worked to fulfill this ordinary constituent request. When the flag and its accompanying certificate showed up in Turner's office, however, something wasn't quite right. The boy had asked for an inscription on the certificate that honored his grandfather's "love of God, country, and family." The certificate, however, did not include the word "God." Turner asked for an explanation from the architect's office and learned about a policy against religious expressions on flag certificates. He and several other members of Congress complained, and the prohibition was quickly eliminated. "The Architect of the Capitol is no longer censoring the Architect of the Universe," said Rep. Tom Feeney, a Florida Republican, at the time.

The immediate problem was solved, but many conservatives were startled by its mere existence—and they observed that it came in the wake of a trend toward the effacement of religion from the public squares of Washington. David Barton, a historian who heads WallBuilders, an Evangelical organization, had tried to call attention to it. The FDR Memorial, dedicated in 1997, contains no mention of God. Neither does the World War II Memorial, opened in 2004. Carved on one of its walls is a short D-Day message by Dwight Eisenhower, but the quote ends just before Ike seeks "the blessing of Almighty God upon this great and noble undertaking." Barton is convinced this isn't accidental: "It's hard not to see the bias. Religion is completely scrubbed out."

The Capitol, by contrast, is full of religious imagery. Eight large pictures ring its massive rotunda. One is titled "Baptism of Pocahontas." In another, Pilgrims kneel in prayer, surrounding a Bible opened to the first page of the New Testament. Two more feature crosses. Perhaps the most prominent display is in the House chamber, where the words "In God We Trust" appear on the wall above the speaker's rostrum.

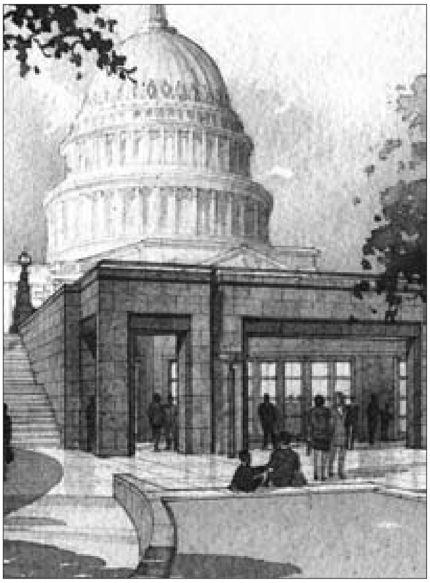
Even so, the Capitol is occasionally called a "secular temple." While tourists on pilgrimages to Washington don't always have faith on their minds, many of them do want to see where their legislative representatives work. Unfortunately, the Capitol wasn't built to receive guests in today's large numbers. The idea for an underground visitor center on the building's east side goes back several decades. In the early 1990s, members of Congress envisioned a structure only slightly smaller than the one that was actually built—"all for a mere $71 million," as the *Washington Post* put it at the time. Republicans objected to the cost, however, and the project was shelved. But it didn't vanish. When a lunatic gunman killed two Capitol Police officers in 1998, Congress felt a need to overhaul its security procedures, and as part of the plan, it authorized $100 million for the CVC.

The congressional Big Dig was on—and the expenses started to pile up. Within two years, the CVC's price tag rose to $265 million. Then came 9/11, the anthrax attacks, and more worries about security. New budget: $373.5 million. The opening was delayed. Today, the estimated construction cost of Congress's next-door pork-barrel project is $621 million, almost nine times what Republicans once deemed too steep.

The CVC will prove popular with tourists. When it opens, they'll see a big difference in convenience and efficiency. Rather than standing in long lines on sweltering summer days, they'll be able to make advance reservations on a website and walk into an air-conditioned facility. They'll also get to watch an orientation film in one of two theaters, eat in a 530-seat restaurant, and choose from 26 restrooms. (There are only five public restrooms in the Capitol itself, and they aren't easy to find.)

They'll also have a chance to stroll through a large exhibition hall and study educational displays on Congress and the Constitution—and that's where the controversy over content arose. When Sen. Jim DeMint, Republican of South Carolina, explored the hall, he wasn't pleased. "There was an obvious absence of any accurate historical reference to our religious heritage," he says. He noticed the misidentification of the national motto, but the problem went much deeper—and he took it to the floor of the Senate. "In touring the CVC, I found the exhibits to be politically correct, left-leaning, and secular in nature," he said on September 27. "There seems to be a trend of whitewashing God out of our history." He noted that although the hall displayed a couple of Bibles, a replica of the House chamber didn't include "In God We Trust" above the speaker's rostrum.

There were other questionable omissions. One display, for instance, quotes from the Northwest Ordinance of 1787: "The authors of the Northwest Ordinance believed educated citizens were critical to the success of self-government. Article 3 declared, '. . . education shall forever be encouraged.'" But that's a highly selective excerpt that secularizes the document. Here's the full quote from Article 3: "Religion, morality, and knowledge being necessary to good government and the happiness of mankind, schools and the means of education shall forever be encouraged."



Rendering of the completed CVC

THE ARCHITECT OF THE CAPITOL

DeMint and Forbes pressured the Architect of the Capitol's office to improve these displays. At one point this fall, DeMint put a hold on the bill that would have allowed the CVC to open. He and Forbes wound up winning several concessions: The replica of the House chamber now includes "In God We Trust," and the Northwest Ordinance is more fully explained. In addition, the Pledge of Allegiance will be carved into the walls of the CVC and there will be new displays on the role of religion in the nation's heritage.

Yet the exhibition hall still includes plenty of liberal bias. A section on FDR describes the New Deal, in rah-rah fashion, as "a creative burst of energy that initiated economic recovery" during the Depression. There's a panel on the 19th-century impeachment of Andrew Johnson, but nothing comparable on the 20th-century impeachment of Bill Clinton (except a brief mention in a video). What's more, conservative icons are almost totally missing. There's a picture of Robert A. Taft, but no image of Barry Goldwater or Henry Hyde. At the same time, the CVC is full of dutiful tributes to female firsts: the first woman elected to the House (Jeannette Rankin), the first woman to serve in the Senate (Rebecca Felton), the first woman elected to the Senate (Hattie Caraway), the first woman elected to both the House and the Senate (Margaret Chase Smith), the first "woman of color" and first Asian-American woman elected to Congress (Patsy Mink), the longest-serving woman in Congress (Edith Nourse Rogers), and so on.

An alcove on modern history includes big pictures of an Earth Day rally, an ACT-UP protest on AIDS funding, and hippies at the Pentagon in 1967. It's not as if the CVC made no attempt at balance: There's also a black-and-white photo of Vietnam-era "pro-war demonstrators" that's one-quarter the size of the full-color anti-war image. Yet the CVC seems a little hung up on Vietnam. On the same wall, there's a hard-to-miss picture of a woman hugging a tombstone at Arlington National Cemetery. The caption reads: "The nation continued to mourn its fallen soldiers of the Vietnam conflict. The war claimed over 58,000 casualties." (Actually, it claimed over 58,000 deaths; the number of casualties, which includes injuries, is a lot higher.) The photo is a powerful symbol of loss. A close look at the tombstone reveals, however, that it's for a man who died in 1982, seven years after the last American soldier left Saigon. He was not a "fallen soldier of the Vietnam conflict," but a 76-year-old veteran of three wars.

There are plenty of little errors, too. The presidential election of 1824 was not the first one "to excite high public interest and participation" (read about the elections of 1796, 1800, and 1812). The states did not ratify ten of the first twelve amendments to the Constitution passed by Congress (they ratified eleven: The first ten are the Bill of Rights and the eleventh is the 27th amendment, finally approved in 1992).

It's hard to avoid a sad conclusion: Congress's monument to itself isn't even good enough for government work. **NR**

■ THE GOP

Scapegoating The Social Right

A fact-free distraction

RAMESH PONNURU

IN 2002 and 2004, Republicans ran hard on social issues and the courts—and scored victories at every level of politics. In 2006 and 2008, they left those issues off the table, and got walloped. It follows, naturally, that the social issues are to blame for the Republican defeats.

At least, that's the conclusion that a chorus of commentators has reached. They are attempting to persuade Republicans to soften or downplay their party's social conservatism and hide its social conservatives in order to resume winning elections. About this campaign to sideline the social Right, three things can be said with a fairly high degree of confidence: It is predictable; it will fail; and it is wrong.

The impulse to blame social conservatives arises nearly every time Republicans fail. They were blamed for the elder Bush's 1992 defeat, as though he would have won if only Pat Robertson had not spoken at the Republican convention. They were blamed for losses in the House in 1998. And now they are being blamed for McCain's rout.

Republicans' social conservatism provokes more intense and angry opposition than their positions on other issues do. In some parts of the country—places where political writers tend to congregate, for example—social conservatives are so thin on the ground that it is easy to underestimate how widespread their views are. So it is understandable that many people would leap to the conclusion that Republicans would have more support if they backed off on social issues.

Yet there is no real likelihood that the party is going to abandon or reduce its opposition to abortion in particular or kick aside the social conservatives in general. Social conservatives are, for one thing, too woven into the structure of the party to be ejected. In 2004, the Republican convention showcased pro-choicers such as Arnold Schwarzenegger, Rudolph Giuliani, George Pataki, and Colin Powell. So far, the only candidates anyone is mentioning for 2012 are Mike Huckabee, Mitt Romney, Sarah Palin, Bobby Jindal, Mark Sanford, and Tim Pawlenty. All are pro-life.

The Giuliani campaign's spectacular flameout shows how hard it would be for Republicans to become pro-choice. Unlike previous pro-choice Republican presidential candidates, Giuliani did not run on his pro-choice position, had a record of accomplishment, tried to meet pro-lifers partway, had huge national name recognition, and took orthodox conservative positions on economic issues. He was no Arlen Specter. Yet he still couldn't make it. The conventional wisdom blames his failure on his "late-state strategy." But he adopted that strategy for a reason: He could not compete in Iowa or South Carolina or Michigan, largely because of his position on abortion. (Maybe things would have been different if he had taken a pro-choice, anti-*Roe* position.)

WORSE THAN MISGUIDED

If the pundits' advice were right, Republicans would be doomed, since they are highly unlikely to take it. Luckily, that advice is misguided. No, actually, it is worse than that: The case that an overemphasis on socially conservative positions has been a major cause of Republican defeats is obviously ridiculous.

In 2006, for example, the Republican senator who went down hardest, Rick Santorum of Pennsylvania, lost to a pro-life Democrat—in an election that also saw pro-abortion senator Lincoln Chafee lose. In 2008, meanwhile, one of the most liberal states in the country, California, banned same-sex marriage by referendum, as 29 other states have also done. In both elections, Democrats played down their social liberalism in most competitive races and instead ran on economics and foreign policy.

Nonetheless, some people are still at least going through the motions of blaming the defeats on social conservatives and counseling the party to move left on social issues.

The *only* change that *Commentary* contributor Max Boot advocates for Republicans based on the election returns is to be more willing to nominate pro-choice presidential candidates. But it is hard to believe that Republicans would have done better with Giuliani as their nominee. He would have had a huge problem with conservative turnout, and that's just for starters.

John Avlon, who worked for Giuliani during his mayoralty and presidential candidacy, has argued in several publications that Republicans, to survive, need to become more like Giuliani and, perhaps more to the point, like Avlon. He writes:

> Even the editor of the National Review, Rich Lowry, recognizes that Republicans need to reach the center as well as the right to win in our center-right nation.
>
> Republicans will emerge from the wilderness only when they reconnect with independent and centrist voters who are fiscally conservative but socially progressive and strong on national security. That means modernizing by embracing a big-tent philosophy on social issues that can credibly attract libertarians again. It means regaining credibility on fiscal issues with clear contrasts like a balanced budget and flat tax.

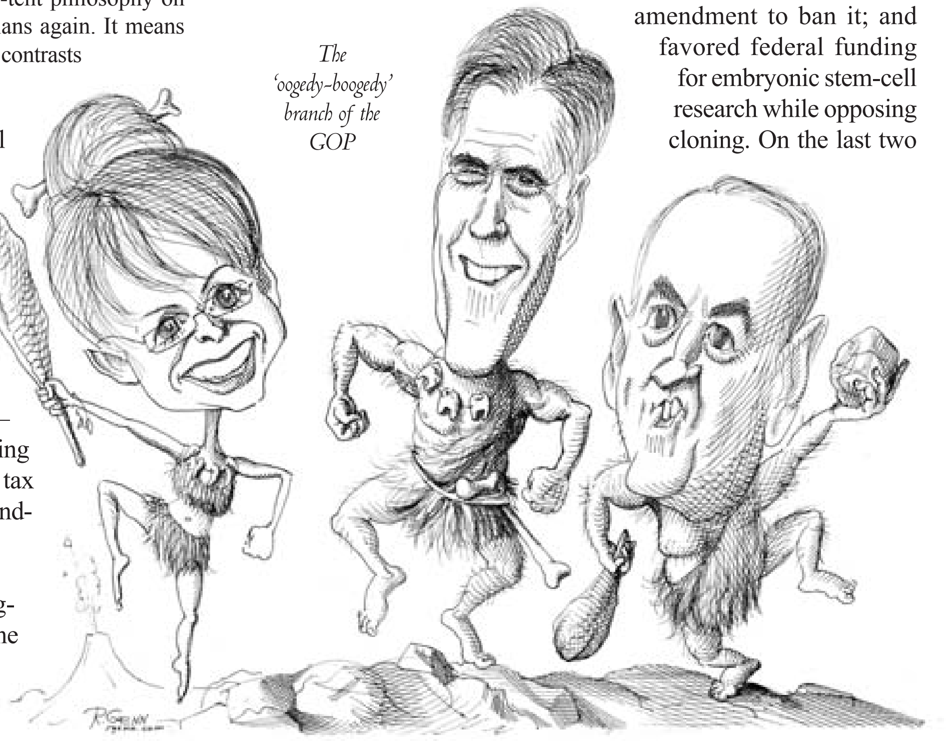
Avlon is mistaken in thinking both that all centrists are social liberals and fiscal conservatives and that all people who talk about "the center" have this type of voter in mind. The latter mistake accounts for his recruiting of Lowry to his side of the argument. The notion that "a balanced budget and flat tax" plus abortion rights is a formula for political success, meanwhile, borders on the fantastical—particularly when you bear in mind that keeping both economic promises would require either tax increases on the middle class or massive spending cuts.

Avlon has also cited a 2007 Kaiser Foundation/*Washington Post* study that suggests that independent voters are closer to the Democrats than the Republicans on abortion and same-sex marriage. But that very same study showed that only 16 percent of independents match the profile of fiscally conservative, socially liberal voters that Avlon wants Republicans to court.

Syndicated columnist Kathleen Parker writes that "the evangelical, right-wing, oogedy-boogedy branch of the GOP is what ails the erstwhile conservative party and will continue to afflict and marginalize its constituents if reckoning doesn't soon cometh." (No, I don't know what "oogedy-boogedy" means either, but I gather it's bad.) That many people find Evangelical Christianity off-putting is clearly true. Parker reflects that sentiment more than she justifies it, but she does make one attempt to support her thesis. She cites Emory University's Alan Abramowitz, who argues that "increasing racial diversity, declining marriage rates and changes in religious beliefs" have been "devastating to the Republican party."

Married white Christians are indeed a declining share of the electorate. Single people also tend to have more socially liberal views than married ones. But they also tend to favor (and depend on) government programs more than married people, so they would presumably lean left even if Republicans ditched the social Right. Meanwhile it is quite clear that Republican positions on social issues are more attractive to black and Hispanic voters than their positions on economics or foreign policy. Indeed, many blacks, Hispanics, and Asians belong to religious traditions that partake of oogedy-boogedyness.

Former New Jersey governor and EPA administrator Christine Todd Whitman wrote an anti-social-conservative book with Robert Bostock a few years ago. After the election, they argued in the *Washington Post* that "social fundamentalists . . . who base their votes on such social issues as abortion, gay rights and stem cell research" have taken the GOP "hostage." Actually, the Republican presidential nominee's positions on those issues were mostly in line with public opinion: He favored a ban on abortion with exceptions for rape and incest; opposed same-sex marriage but also opposed a constitutional amendment to ban it; and favored federal funding for embryonic stem-cell research while opposing cloning. On the last two



The 'oogedy-boogedy' branch of the GOP

ROMAN GENN

issues, he parted company with most social conservatives. Some hostage.

Whitman and Bostock note, correctly, that Republicans suffered more from moderate defections than from conservative ones—but simply assume that those moderate defections were caused by the social issues. And then they turn to the exit polls, and perform an astonishing sleight of hand.

> Nor did the Republican ticket lose because "values voters" stayed home. On the contrary, according to exit polls, such voters made up a larger proportion of the electorate this year than in 2004—26 percent, up from 23 percent. Extrapolating from those data, one concludes that McCain actually won more votes from self-identified white evangelical/born-again voters than Bush did four years ago—1.8 million more. But that was not enough to offset the loss of so many moderates.

I looked up the numbers to confirm that Whitman and Bostock were doing what they seemed to be doing: treating "values voters" and white Evangelicals as identical sets. In their analysis, there are no Evangelical moderates. There are also no Catholic social conservatives. Karl Rove has pointed out that more than 4 million people who go to church more than once a week—people who tend to be quite conservative politically—voted in 2004 but not 2008. That's a more relevant number than the ones Whitman and Bostock cherry-pick.

Even if they played the numbers straight, Whitman and Bostock would not have much of a case. The logic of their position is that if a group of voters has stayed with Republicans during a rout, the party should respond by working to drive them away, too.

DISTRACTION

There is no question that social conservatism repels some voters. But there is no real reason to think that it costs the Republican party more voters than it brings, or even that the party has overemphasized it. It is surely the case that social conservatives could present themselves more attractively. They could pick their spokesmen more wisely, for one thing. At a recent National Review Institute conference in Washington, Maggie Gallagher pointed out that social conservatives have two models of politics: the mass uprising or the secular Messiah who will put everything right. The patient and endless work of politics fits neither model.

People who disagree with social conservatives should, of course, feel free to make their arguments on the issues. But the argument that socially conservative positions are a drag on Republican tickets is dubious, as is the fact-free fervor of those who insist on it. Check that Kathleen Parker quote above: The Evangelicals are "what ails the party." The implication is not just that they are a bigger problem for Republicans than, say, the voters' preference for Democrats on health care. It is that the latter issue is insignificant.

David Frum, similarly, has recently written that a "painful change" on abortion and a "less overtly religious" message is "the only hope for a Republican recovery." This kind of sweeping language ought to be backed up by more evidence than the critics of the social Right have yet produced.

The attempts to blame social conservatism for Republican defeats will not reduce its influence in the party. What they will do is distract attention from the changes the party really does need to make. **NR**

■ **AT WAR**

In Search of the Afghan Maliki

The U.S. should focus on its own interests

AMIR TAHERI

Early in 2007, as the American presidential campaign started to gather momentum, critics of Pres. George W. Bush's War on Terror invented a scheme that allowed them to oppose the administration's strategy while dodging charges of appeasement. Under that scheme, Iraq was presented as "the bad war" or, according to Sen. Barack Obama, "the wrong war, at the wrong time, and in the wrong place." In contrast, Afghanistan was presented as "the good war," the "just war," or even "the necessary war."

The argument was that the war in Iraq was wrong because it had not been explicitly approved by the United Nations, while the invasion of Afghanistan had been. That argument ignored the fact that the U.N. Security Council had passed 14 resolutions about Iraq, all of them implicitly allowing the use of force against the Baathist regime. The fact that of all the wars in the world since 1945 the U.N. had ordered only three explicitly did not prevent critics from singling out the liberation of Iraq as a violation of international law. Those critics also ignored the fact that the U.S. Congress had overwhelmingly approved the use of force against Saddam Hussein, thus providing the legal basis that they claimed was lacking.

Opponents of the liberation of Iraq also claimed that the invasion had been wrong because it had not enjoyed the support of U.S. allies. However, among the key U.S. allies, only France and Germany had not backed the war. The "coalition of the willing" that joined the U.S. in liberating Iraq initially included 49 countries (35 had rallied to the cause in Afghanistan).

Critics of the war in Iraq also used a third argument: Taking action against Afghanistan was legitimate because it had harbored al-Qaeda, the terrorist organization whose operatives attacked the U.S. on 9/11. (The critics ignored the fact that al-Qaeda had been established in Afghanistan years before the Taliban appeared on the scene.) They saw the American intervention in Afghanistan as a case of self-defense, while Iraq represented an example of the type of preemptive war that they regarded as the Bush administration's most dangerous invention.

Over the two years that followed, this argument was transformed into a pillar of Candidate Obama's platform, with

Mr. Taheri is an Iranian-born journalist based in Europe. His new book, *The Persian Night: Iran under the Khomeinist Revolution*, will be published in December.

the promise that, once he had won the election, it would be a key element of his foreign policy. As president, Obama would withdraw from Iraq but increase American military presence in Afghanistan—from which he would also invade Pakistan, if necessary.

This analysis was motivated by clever electoral calculations—and it might not reflect the real interests of the United States in the "Arc of Crisis" spanning from Central Asia to North Africa, passing through the Persian Gulf and the Levant.

WHY AFGHANISTAN?

In intervening in Afghanistan in 2001, the U.S. had three key interests. The first was to show friend and foe alike that it could not be attacked with impunity. Prior to 9/11, the U.S. had suffered a series of terrorist attacks, from the seizure of its diplomats as hostages in Tehran to the mass murder of 241 U.S. service personnel in Beirut to the first attack on the World Trade Center in 1993, but had not hit back in a way that dissuaded future aggressors. By declaring war on Afghanistan, the U.S. was making up for that mistake, reassuring its friends and warning its enemies. The U.S.'s second interest was in finding and destroying the bases from which terror had been exported to America and, where possible, capturing or killing the masterminds. Its third interest was to help Afghans replace the Taliban with a government of their own choice in the hope that it would prevent the re-emergence of terrorist bases.

By 2005, all three objectives had been achieved. The world had absorbed the message that, if attacked, the U.S. would fight back. U.S. and allied forces had destroyed every single terrorist base used by dozens of groups, many with no links to al-Qaeda, throughout Afghanistan. They had also killed or captured most of the terrorists present in Afghanistan at the time. By 2007, in fact, of the 25 senior leaders of al-Qaeda, only three were still alive and free, presumably hiding in Pakistan. Many in the region were even convinced that Osama bin Laden, the self-styled "supreme guide" of al-Qaeda, had died as early as December 2001—this despite audio and video messages broadcast in his name on a few occasions since 2004. The U.S. had also supervised a process of consultations and referenda that led to the writing of a new democratic constitution and the election of a new parliament and president in Afghanistan.

By the end of 2005, therefore, the U.S. could have declared victory in Afghanistan and started to reduce its military footprint in preparation for full disengagement. However, the Bush administration could not contemplate such a course—for two reasons: First, Afghanistan was perceived as "the good war" and thus could not be abandoned while "the bad war" continued in Iraq. And second, the Afghan enterprise had developed a momentum of its own and brought up a set of new objectives that had little relation to U.S. national interests.

Rebuilding Afghanistan's economy by reviving its agriculture, destroying the opium trade, improving the status of women, increasing the number of children in school, and creating a Western-style judiciary were all laudable objectives; but they didn't have much to do with U.S. national interests. More important, perhaps, these were objectives that no outside power could hope to achieve without the full participation of the native population, let alone against its will.

THE TRUTH ABOUT THE TALIBAN

It is also important to emphasize a fact often ignored in the debate on Afghanistan: The Taliban had never been an explicitly anti-American outfit. In fact, the Taliban were created by Saudi Arabia, the United Arab Emirates, and Pakistan, all allies of the U.S., in or around 1993 with the goal of preventing pro-Iran elements from controlling Afghanistan after the fall of the Communist regime. Nursed on the Salafist ideology, the Taliban saw itself at war primarily against Shiites and other non-Salafist Muslims rather than against the U.S. or any other "infidel" power. The mass of Taliban literature, including addresses by Mullah Muhammad Omar, their emir al-momineen ("commander of the faithful"), contained no specifically anti-American themes. A year before 9/11, the Taliban had opened talks with the Clinton administration to establish diplomatic ties with the U.S. Clinton had dispatched a number of high-profile emissaries, including the then-envoy to the U.N., Bill Richardson, to Kabul for talks with Taliban leaders.

For their part, the Taliban used Zalmay Khalilzad, who was to become a key diplomat in the Bush administration, as its chief lobbyist in Washington. In August 2001, just weeks before the 9/11 attacks, Taliban foreign minister Mullah Wakil Ahmad Mutawakil told me that his regime would soon open its embassy in Washington. Hamid Karzai, the future president of Afghanistan, was to be the Taliban ambassador. Soon afterward, I heard the same message from Qatar's foreign minister, Sheikh Hamad bin Jassim, in Doha. A few days later, Gareth Evans, a former Australian foreign minister and head of the International Crisis Group, confirmed Mutawakil's hopes. In an interview in Brussels he told me that an international consensus was emerging in support of "recognizing the Taliban as the legitimate government of Afghanistan."

While everyone acknowledged that the presence of Osama bin Laden and his group on Afghan territory was a problem, no one claimed that the Taliban was an anti-American movement. The U.S. had a specific national interest in trying to kill or capture the man behind a series of attacks on American targets since 1993, including the suicide raid against the USS *Cole* and the destruction of U.S. embassies in Kenya and Tanzania. At the same time, however, the U.S. had no national interest in toppling the Taliban regime. True, the Taliban had refused to hand over bin Laden to the Americans. But they had not done so in accordance with any specifically anti-American ideology. Months before the Americans made their demand, the Taliban had rejected a similar demand from the Saudis, who had financed them for years. Obnoxious as it certainly was, the Taliban regime presented no specific threat to the U.S.

The U.S. involvement in Afghanistan started, therefore, with objectives that had a realistic chance of being achieved by the Americans and their allies—but ended up with new goals that no outsider could hope to reach.

TOO HIGH A MOUNTAIN

On advice from Karzai, Khalilzad, and a number of other Afghan exiles, the Bush administration, which had little knowledge of Afghanistan, was sucked into a project founded on a number of illusions. The chief illusion was that Afghanistan could develop a system of highly centralized government headed by a

U.S.-style president and a strong executive branch. That scheme ignored Afghanistan's historical and geographical realities. Afghanistan emerged as a loosely knit independent state in the 18th century and was accepted as a buffer setting the limits of the Tsarist, Persian, and British empires in Central Asia. A patchwork of ethnic and religious communities, Afghanistan developed a system of rule in which tribal chiefs and Muslim clerics enjoyed a great measure of autonomy under the nominal suzerainty of a distant king who never tried to impose his will throughout his realm by force. The idea that Afghanistan is a land of unruly tribes was generally recognized in the Muslim world. It was not for nothing that Muslims always referred to Afghanistan as Taghistan ("The Land of Insolence").

The Taliban knew all that and never tried to impose central control over the country. They preferred to secure the allegiance of local tribal and religious leaders with a mixture of bribery and deference. It is well known that the Taliban conquered more land with Samsonites full of crisp U.S. dollar notes than with Soviet-style AK rifles.

The best structure for Afghanistan is that of a loose federation in which its 18 ethnic and religious communities enjoy full economic, cultural, and administrative autonomy. Yet the system developed in Afghanistan since 2002 has gone in the exact opposite direction. The Afghan president today has powers that no Afghan king ever dreamt of. The problem is that these powers cannot be used without provoking violent resistance from a majority of Afghans—and such violence cannot be dealt with except by force. President Karzai, a member of a minor Pashtun (Pathan) tribe who lacks a constituency of his own, cannot master the force needed to impose central-government control throughout his unruly land. He has been trying to do so by relying on American power. The result is that the U.S. has been sucked into Afghan politics as another tribe, albeit one that has greater firepower than the rest.

U.S. policy was put on the wrong trajectory from the start. Once the Taliban had gone into hiding, the exile Afghans persuaded the Bush administration to marginalize and eventually expel virtually all the political and military leaders who had fought first the Communists and then the Taliban over the years. Branded "warlords," these natural leaders of the various Afghan communities were given a reason to dislike America. Even the Northern Alliance, a grouping of 34 armed bands and political organizations that had cooperated with the U.S. and seized control of Kabul after the departure of the Taliban, was pushed to one side as Washington helped exiles with no national constituencies dominate the Afghan political scene. This was in sharp contrast with American policy in Iraq: There, the "warlords" had been recognized and accepted as legitimate partners in building the post-Saddam system.

In Afghanistan, the U.S. and its allies have been dragged into what is essentially a multi-layered civil war in which the new elite, led by Karzai, is fighting to preserve its power against a variety of rivals from the Pashtun community that, accounting for some 42 percent of the population, constitutes the country's largest ethnic component. A majority of the Tajiks, some 27 percent of the population, and the Uzbeks, some 9 percent, and the Hazara Shiites, another 9 percent, have decided to stay on the sidelines, if only because they have no dog in this fight. They see no reason why they should fight for the Karzai regime that, using U.S. power, has marginalized them. The trouble is that the new ruling elite, including the bloated and corrupt bureaucracy and the slick-looking but inefficient military, is also reluctant to do the necessary dirty work, leaving all that to the Americans and their Western allies. The new elite has developed a room-service mentality, convinced that all it needs to do is to ring the bell for the Americans to do the job.

A COMPLICATED REVOLT

The backbone of the current insurgency in Afghanistan consists of Pashtun tribes, especially in the southwestern provinces that have been excluded from power. These tribes would have fought any central government that ignored their voice. Thus their campaign should not be seen as part of an Islamist anti-American jihad. The U.S. and its allies cannot win this war, because their side—the Karzai clan—lacks the tribal support needed to defeat the insurgency. While the Taliban provides leadership for part of the insurgency in some sectors of the Pashtun heartland, it would be wrong to ignore other groups and clans involved in this power struggle.

The Pashtun ethnic revolt, and its ideological manifestation through the Taliban, is only part of the insurgency. Iran is also using a number of Pashtun groups, under the umbrella of Hezb-i-Islami (The Islamic Party), led by Gulbuddin Hekmatyar, to divide the Pashtuns and weaken Karzai's U.S.-backed administration. Pakistani military intelligence—the ISI—is running a number of armed Pashtun tribes in the hope that, once the Americans have gone, Islamabad will not be left without a lever to influence Afghan politics. Karzai and his associates have also invoked American power in support of old Afghan chauvinistic claims against Pakistan in the hope of gaining a measure of nationalistic legitimacy. Afghan chauvinists have always claimed that Pakistan's Northwest Frontier, where ethnic Pashtuns are a majority, is an "integral part" of Afghanistan and should be reunited with the fatherland. Based on that claim, the Afghans refused to recognize the emergence of Pakistan as an independent state for almost two decades. By reviving that irredentist tension, Karzai has encouraged Pakistani hardliners who claim that the American presence in Afghanistan could be a threat to Pakistan's territorial integrity.

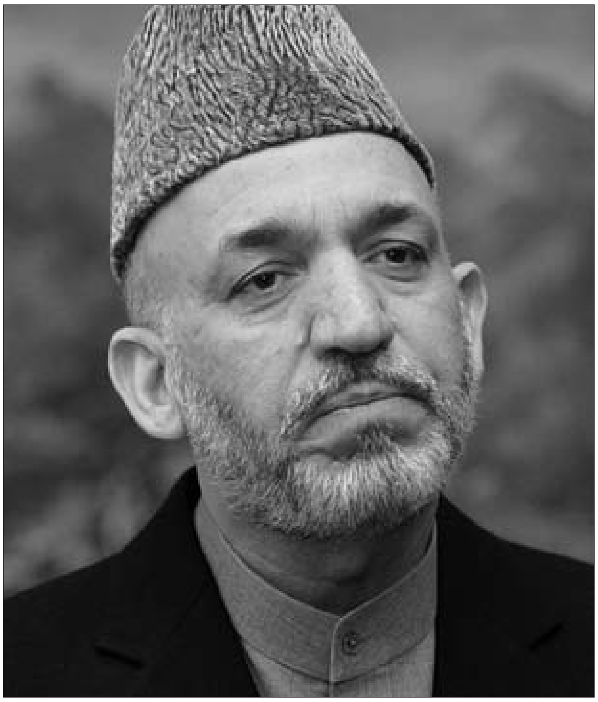
To complicate matters further, we also have a number of freelance mujaheddin, such as the group led by Mullah Jalaluddin Haqqani (who is now ill and believed to be dying in Abu Dhabi), that switch sides according to the mood of the moment and the size of the bribe. A third strand to the insurgency is represented by a dozen or so armed gangs recruited and financed by the drug barons in both Afghanistan and Pakistan. Often, these groups use the label of Taliban to secure tribal and/or religious legitimacy.

It is obvious that the U.S., or indeed any other outside power, cannot win a clear-cut and definite victory against groups capable of waging low-intensity war on small budgets for decades.

The U.S. war in Afghanistan has still other international dimensions. In 2001, Afghanistan sheltered scores of Islamist terror organizations from more than 40 countries across the globe. The principal Islamist force fighting Russia in Chechnya maintained most of its camps in Afghanistan, training hundreds of fighters each year. The three principal terrorist groups fighting India in Kashmir were equally dependent on their Afghan bases. The Algerian Salafist group for Preaching and Armed Combat

(GSPDA), the Libyan Islamic Jihad, the Egyptian Islamic Society (Gamaah Islamiyah), and the Yemeni Sons of Jihad Movement all depended on Afghan bases for continuing their wars in their home countries. Afghanistan also sheltered at least four armed groups fighting China in East Turkestan (Xinjiang), two groups fighting in the Philippines, a group fighting in Thailand, and half a dozen groups fighting in Indonesia. Many European countries were affected as a growing number of their Muslim citizens came to Afghanistan to train for armed jihad. Between 2001 and 2007, U.S. and allied forces have killed or captured over 400 such European jihadists. (By contrast, only two U.S. citizens, converts to Islam, were captured in Afghanistan.)

The U.S.-led war in Afghanistan has led to the destruction of all the bases used by terror organizations, of which only one, al-Qaeda, had had a specifically anti-American agenda. In some cases, such as that of the Hizb Tahrir Islami (Islamic Liberation Party), which had been fighting a guerrilla war in Uzbekistan since the 1990s, the American intervention in Afghanistan led to almost total destruction. With its Afghan bases dismantled and dozens of its fighters killed or captured by the Americans, the Hizb never recovered, allowing the government of Pres. Islam Karimov to declare the end of the insurgency. Karimov is not the only one to have benefited from American efforts in Afghanistan. The destruction of Chechen bases in Afghanistan helped Russian president Vladimir Putin to crush the rebellion in Chechnya by 2005. U.S. intervention in Afghanistan has also helped Saudi Arabia defeat its own Islamist terror groups, which, having lost their Afghan bases, were unable to find new training grounds and safe havens.



Not the one

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In other words, the U.S. spent blood and treasure in Afghanistan to dismantle many different groups that fought many different countries, including some of America's enemies, rivals, and adversaries. While that outcome is certainly positive from the point of view of international peace, it cannot be described as something exclusively serving U.S. interests. To make matters worse, all the countries that have benefited from U.S. intervention in Afghanistan—including such major powers as China, India, and Russia and such wealthy states as Saudi Arabia—have been reluctant to make an adequate contribution in blood and treasure to the Afghan project.

For the U.S. to become even more heavily involved in defending an unworkable constitution, a weak and corrupt ruling elite, and an army and bureaucracy that do not wish to do their jobs, is bad politics to say the least. As things are today, the U.S. has no clear national interest in maintaining an open-ended presence in Afghanistan. It certainly shares the interest of many other nations in making sure that Afghanistan does not become a haven for terrorists once again. However, even in 2001, such powers as Russia, China, India, Saudi Arabia, Indonesia, Uzbekistan, the Philippines, and even the Islamic Republic in Iran were more threatened by terror groups located in Afghanistan than was the United States.

To be sure, the U.S. cannot just pull the plug and walk away. But it can make its continued presence conditional on the implementation of a political strategy in Afghanistan.

This should include constitutional changes to decentralize power, perhaps by developing a loose parliamentary system similar to the one that has succeeded in Iraq. That would enable the Pashtun malcontents, including segments of the Taliban, to receive a share of power. Pakistan should also be reassured that it will not be excluded from the Afghan scene and that old Afghan chauvinism will not be used against it. All the nations that have benefited from the destruction of terror groups in Afghanistan should be asked to make proper contributions—a request backed by the assertion that the U.S. is not prepared to fight their wars forever.

All this would require the appointment of a coordinator enjoying full American support plus U.N. legitimacy. Such a coordinator could end the disarray that has marked NATO operations in Afghanistan and make sure that the alliance, the U.N., and the Afghan authorities pull in the same direction. Next year's presidential election in Afghanistan provides an excellent opportunity for introducing the changes needed to guide the country away from an over-centralized form of government and toward a system of devolution that reflects the nation's ethnic, religious, and linguistic diversity.

One reason for Gen. David Petraeus's success in Iraq was that he realized early on that most of the groups that kept the insurgency going had no specifically anti-American agendas. The same is true of most of the groups keeping the Afghan pot on the boil. Just as in Iraq, the U.S. in Afghanistan has no permanent friends or enemies and, as long as its national interests are not threatened, no reason to favor one outcome of the power struggle to another. The man who helped the U.S. achieve success in Iraq was not Ahmad Chalabi, a long-time favorite in Washington, but Nouri al-Maliki, whose Ad-Da'awah (The Call) party had initially regarded the American intervention with great skepticism, to say the least.

Two years ago, the talk in Washington was on how to find a Karzai for Iraq. Today, the talk is about how to find a Maliki for Afghanistan. Such a man can be found, provided the U.S. undertakes the same policy changes that helped the "surge" succeed in Iraq, paving the way for American withdrawal in under 40 months.

NR

■ COVER STORY VI

Go Forward To Gold

How to lift the reserve-currency curse

LEWIS E. LEHRMAN & JOHN D. MUELLER

THE most disturbing aspect of the current financial crisis is that no U.S. official has correctly identified its primary cause. Experts variously attribute the economic reverses to subprime lending, derivative trading, excessive leverage, and regulation that was either too lax or too strict (take your pick), but these are symptoms rather than causes. Ignored is the main culprit: the dollar's role as the world's main official reserve currency. Though he almost certainly doesn't realize it yet, President-elect Barack Obama will either set the dollar's reserve-currency status on the path to extinction or risk becoming the next victim of what we call "the reserve-currency curse."

Official reserves are money held by governments and central banks for the settlement of international payments. A Spanish bank may not want to accept Indian rupees, and it might be inconvenient for Qatar Petroleum to accept Mexican pesos for a million barrels of oil. An official reserve *currency* is one everybody agrees to accept, and right now that currency is the dollar. But foreign-exchange reserves are commonly held in the form of government debts of the nation that issued the currency. In the case of the United States, that includes all those government bonds piling up in China and elsewhere. The problem is that, unlike gold, official dollar reserves increase the money supply in one country without decreasing it in another. When reserves are being increased, the effect is inflation. When reserves are liquidated, the effect is deflation—potentially dangerous deflation.

To understand how the dollar's reserve-currency role helped cause the recent bubbles, and the ensuing crisis in the world financial system, we must apply the analysis of the great French economist and central banker Jacques Rueff, who was the first to explain the process. As a financial attaché in London in the early 1930s, Rueff witnessed the collapse of the post–World War I monetary system. He correctly diagnosed the stock-market boom of the 1920s, and the subsequent crash and price deflation, as the result of massive official accumulation—and subsequent liquidation—of foreign-exchange reserves. Foreign countries' dollar reserves were certainly not the only factor involved, but before and during the Depression they were large enough to play a decisive role.

Many years later, in the 1960s, Rueff correctly predicted (and tried to prevent) the breakdown of the dollar-based Bretton Woods system. This 1944 agreement made the gold-convertible U.S. dollar the official reserve currency of the world monetary regime; it also fixed exchange rates within narrow limits. When the U.S. abandoned gold convertibility in 1971, thereby eliminating fixed exchange rates, the dollar's reserve-currency role expanded sharply; without gold backing the system, it became a question of confidence, and the world had confidence in the dollar. Rueff died in 1978, but today's international monetary system—based on the paper dollar, which is backed by nothing but faith in the American economy—has the same potentially fatal flaw that he pointed out in two earlier gold-exchange standards. As was true in the 1920s and the 1960s, the dollar's reserve-currency role has led to the main pathologies that now plague the world economy: the speculative "hot money" flows that first inflated and then deflated stock, bond, and real-estate prices; the sharp rise and fall of commodity prices, especially of oil and other energy commodities; Congress's apparently incorrigible fiscal irresponsibility; and the mushrooming U.S. deficit in international trade and payments.

The key difference between a reserve-currency system and the gold standard is that foreign-exchange reserves, in the form of government bonds, are not only *assets* of the national authority that holds them, as gold was; they are also (unlike gold) *debts* of the country that issues them. Thus, when foreign monetary authorities acquire U.S. debt securities as reserves, U.S. monetary authorities are, in effect, borrowing the same amount.

We all hold our wealth in one of three forms: money, goods (including services), or securities (which are in effect claims on future goods). It is therefore a fundamental truth of accounting that the net international payments for official reserves (money), current account (trade in goods and services), and private-capital account (securities) must equal zero: That is, a surplus or deficit in one account requires an offsetting surplus or deficit in the other two combined. Simply put, if you trade $100 in currency for $50 in goods and $50 in securities, somebody else has traded $50 in goods and $50 in securities for $100 in currency. Payments have to balance out. When foreign countries increase their dollar reserves, it means that U.S. residents have bought that much more foreign wealth than they have sold. The result is a net outflow of capital known as "hot money" because it is highly mobile, speculative, and very sensitive to fluctuations in interest and exchange rates.

The overall U.S. balance-of-payments deficit has persisted almost continuously since 1960, and within the last few years has reached its highest levels ever. This growth in U.S. demand for goods and securities, stoked by central-bank financing, has taken place without a matching growth in supply of goods and services to soak it up. The result is inflation: more money chasing the same amount of goods. And it works both ways: When official reserves are sold, the process

Mr. Lehrman and Mr. Mueller are principals of the financial-markets consulting firm LBMC LLC. Mr. Lehrman is also the author, most recently, of *Lincoln at Peoria: The Turning Point*, and manager of an investment partnership. Mr. Mueller is also director of the Economics and Ethics Program at the Ethics and Public Policy Center. A copy of this article, with explanatory charts, is available at www2.nationalreview.com/monetary.html.

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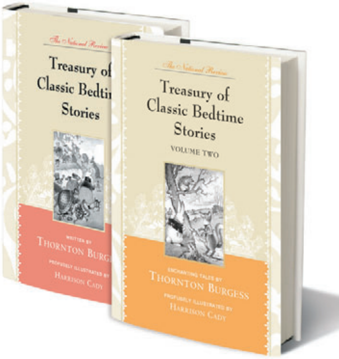
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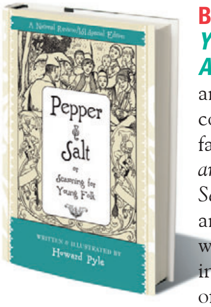
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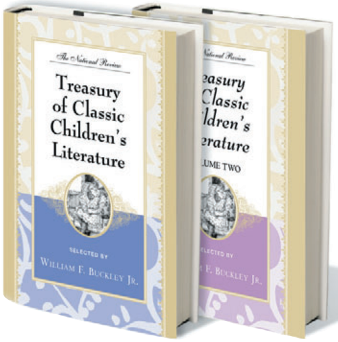
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is thrown into reverse and deflation can result, as in the Depression.

It now typically takes about two and a half years for these effects to work their way through the economy, as one sector responds to another and the hierarchy of prices adjusts to (positive or negative) excess monetary demand. As happened in 1973–74, 1979–80, and 1990–91, the massive 2002–08 commodity-price surge was set in motion by the previous massive expansion of what we defined in the 1980s as the "world dollar base": the sum of U.S. currency, commercial-bank dollar reserves, and foreign official dollar reserves. These reserves are sometimes called "high powered" dollars because they permit private banks to expand their lending by a multiple of their reserves. When reserves disappear, lending has to contract by a similar multiple.

By observing the growth of the world dollar base and tracking its impact on the markets, our firm was able to predict correctly in 2005 that crude oil would hit $100 a barrel by the end of 2007—and then, as rising production costs squeezed profit margins, to warn investors to shift from equities to Treasury bills. Retail gasoline prices ultimately more than quadrupled—not because energy supplies fell, but because the world supply of "high-powered dollars" (money available to be multiplied through bank lending) had expanded much faster than world energy supplies.

MONEY PLUS CONGRESS EQUALS DANGER

Congress has become increasingly addicted to reserve-currency finance by a kind of fiscal version of Parkinson's Law: Public spending expands to absorb all available tax revenues. Working in tandem with this is Parkinson's Debt Corollary: Public borrowing expands to absorb all available means of finance. In other words, the government will borrow as much as it can from whoever will lend to it. If tax revenues are Congress's "allowance" (as Milton Friedman, envisioning Congress as a spendthrift teenager, once put it), then purchases of Treasury securities (by U.S. government trust funds and by the domestic and foreign banking systems) are its "credit cards." But the congressional teenager's spending won't be constrained by a cut in allowance unless the indulgent parents also cut up the credit cards.

Consider the evidence. Not including the debt absorbed by federal trust funds (particularly Social Security), the federal government's general operating deficit from 1980 through 2007 has averaged 4.2 percent of GDP. Federal investment in government-owned assets like office buildings and warships represented about 1.3 percent of GDP; this part of the deficit was almost exactly equaled by federal borrowing from non-bank private investors. Current federal consumption of goods and services, meanwhile, has accounted for the remaining 2.9 percent of GDP. About a third of this was funded (mostly) by foreign central banks, and two thirds by spending government trust-fund surpluses to fund the general operating budget—thus expanding the budget while masking the deficit.

Relying on currency-reserve financing to expand government spending for current consumption is bad enough in itself. What made it much worse this time around was that Treasury bonds were joined in the mix by mortgage-backed securities issued by Fannie Mae and Freddie Mac and implicitly backed by the government. This funneled inflation (and then deflation) into residential real estate at the very time when Congress was forcing Fannie and Freddie to lower the quality of their mortgage loans drastically to promote homeownership. In the fall of 2007 Rep. Barney Frank, chairman of the House Financial Services Committee, said: "I'm not worried about Fannie and Freddie's health. I'm worried that they won't do enough to help out the economy. That's why I've supported them all these years—so that they can help at a time like this." The result: Fannie and Freddie became insolvent and were nationalized, while Frank continued (as he still continues) his role as financial "watchdog."

The housing deflation hasn't stopped yet, partly because foreign monetary authorities (and recently the Federal Reserve) have been selling Fannie and Freddie's securities (as an analysis of the recent Federal Reserve balance sheet shows). If these sales continue, it will trigger more deflation of real estate, stocks, and commodities, as happened in the U.S. after 1928 and Japan after 1989. The current crisis did not strike suddenly and unexpectedly; signs of its approach were abundantly clear for years before. Despite these signs and the historical precedents, the Federal Reserve had neither the understanding, nor the interest, nor the will to stop the massive, inflationary accumulation or the subsequent sale of dollar reserves abroad.

Similar facts explain why U.S. international trade has swung from a chronic surplus in the early 1960s to a chronic and growing deficit ever since. Increased American consumption and reduced saving have caused an increasing U.S. current-account deficit, and therefore an equal surplus in countries that acquire dollar reserves.

These international imbalances consist almost entirely of goods and services purchased from foreign producers, ultimately paid for by federal deficit spending and financed largely by U.S. official borrowing from foreign monetary institutions. But the private balance of payments—the money U.S. citizens owe to and are owed by foreigners—actually shows a net surplus, proving that the dollar's reserve-currency status and the related federal deficit spending, rather than American consumers' private profligacy, are the driving force behind U.S. international-payments deficits.

The dollar's reserve-currency status provides short-term political advantages to U.S. congressmen seeking reelection, but these are far outweighed by the perennial disruptions it has caused to the world and U.S. economy and to financial markets. There has also been a heavy political cost for presidents whose well-intentioned and sophisticated advisers have not, for two generations, grasped the perversities of the dollar-based world monetary system. This is why the Fed has been surprised repeatedly by large changes in U.S. prices, including housing-price deflation, stock-market selloffs, and commodity-price gyrations.

Ben Bernanke, for example, was a respected economics professor who specialized in the Great Depression before becoming a member, and now chairman, of the Federal Reserve's board of governors. Responding to Milton Friedman's thesis that the Federal Reserve had turned a mild recession into the Great Depression by permitting the U.S. domestic money supply to decline, in 2002 Bernanke addressed Friedman with these

ACTIVE LEARNERS. . .

A
E
H
F
C
G
D
FD ≠ AC
AD > DE > DF
○D, DE
ΔDEF ΔADE < sect. DEH . sect. DGE
EF : AE < ∡FDB : ∡BDA
AF : AE < ∡FDA : ∡BDA
AC : AE < ∡CDA : ∡BDA
EC : AE < ∡CDB : ∡BDA
arc BC . arc AB < arc BC

ACTIVE LEADERS

Richard Diamond ('92)
Senior Vice President for the
Office of Communications
Export-Import Bank of the United States

Rev. Bernard McCoy, O.Cist ('88)
Prior of Our Lady of Spring Bank Abbey
and Founding President and CEO of
LaserMonks.com

Mary Rose Bacani ('03)
Producer, Salt and Light
Television, Canada

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800 . 634 . 9797 www.thomasaquinas.edu words: “Regarding the Great Depression: You’re right, we [the Federal Reserve] did it. We’re very sorry. But thanks to you, we won’t do it again.” However, with all respect to that great economist, it must be said that Friedman was wrong on a crucial point: believing that only *domestic* official monetary liabilities (currency and commercial-bank reserves) matter—a view that Bernanke and Tim Geithner, the New York Fed president and Barack Obama’s nominee for treasury secretary, seem so far to share. Excluding the role of foreign dollar reserves assumes the model of a closed economy, not an integrated global trading system.

The evidence we have reviewed shows that, exactly as Rueff argued, official dollar reserves are a form of high-powered money—adding up to a sum now several times the Fed’s own holdings. The Treasury and federal-agency debt securities held by foreign monetary authorities substantially exceed those held by the Federal Reserve itself, approximately by a factor of five.

A TESTED SOLUTION

How can we end the reserve-currency curse? While acknowledging the complexity of the century-old problem, we must in this article simplify the necessary remedies. The essential requirement for restoring a stable international monetary system is that the major countries agree to replace all official foreign-exchange reserves with an independent monetary asset that is not ultimately some particular nation’s liability. Many standards are theoretically possible, but monetary authorities still hold nearly 900 million ounces of gold, and the simplest, most effective, and most tested solution is a modernized international gold standard. This would require changes in U.S. law and an international monetary agreement.

There are two primary conditions for the success of such a reform. First, the gold values of all national currencies must be properly chosen to preclude the deflationary mistakes of the 1920s and 1930s. This requirement now suggests a gold price not less than $1,000, but a more precise calculation will be necessary when the reform is to take effect. Second, existing foreign-exchange reserves must be removed from the balance sheets of national monetary authorities by consolidating them into long-term government-to-government debts that will be repaid over several decades—much as the Washington-Hamilton administration funded domestic and foreign Revolutionary War debt.

Similar proposals have been made repeatedly—in the 1920s, in the 1960s, and in the 1980s—but in each case they were rejected by “experts” who predicted that raising the gold “price” (from $20 to $35 in the 1920s, from $35 to $70 in the 1960s, or, still later, from $300 to $500 in the 1980s) would be wildly inflationary. The deflationary collapse of the 1930s, the inflationary collapse of the Bretton Woods system in 1971, and the recent financial crisis were all consequences of this shortsightedness. The gold price soared from $35 in 1971 to nearly $200 by the end of 1974, and hit $1,000 an ounce in March 2008 (it is now around $800).

The proposed reform would bring many advantages. First, it is worth remembering that convertibility of major currencies to gold produced by far the best performance of price stability in American history. From 1879 to 1914, average annual CPI inflation was 0.2 percent, with average annual volatility (up or down) of only 2.2 percent. No other standard comes close in combining low average inflation with low volatility. The volatility in the period from 1971 to the present (2.8 percent) is a close second to the classical gold standard, but it has had the worst average inflation: 4.6 percent. The 1862–79 Greenback period had the lowest average inflation (0.1 percent) but the worst volatility (8.8 percent).

Second, the plan would provide not just an American but a vast worldwide countercyclical “stimulus package”—one *not* financed by yet more government debt—since when all other prices decline, the gold “price” would stay constant, stimulating gold mining (in which America now rivals South Africa). Third, relieved of its reserve-currency burden of being the world’s “spender of last resort,” America would see the competitiveness of U.S. industry quickly restored and the chronic U.S. trade deficit quickly return to chronic surpluses. Fourth, since the whole world would have what amounts to a trade surplus with itself, equal to the increase in official gold reserves, pressure for trade protectionism would diminish sharply. Fifth, the chaos of floating currencies would end along with the reserve-currency curse. The gold standard best integrates the world trading system, by bringing about prompt adjustment of balance-of-payments deficits.

Sixth, the reform would halt the proliferation of debt resulting from the current currency system. Seventh, not the least benefit would be to recapitalize the balance sheet of the Federal Reserve System itself. In the course of its massive bailout of private institutions, the Federal Reserve’s loan-to-capital ratio has risen to about 50 to 1—worse than the troubled major private banks it is trying to save! Revaluing U.S. gold reserves from the current $42.22 to at least $1,000 an ounce could bring this ratio down to 7 to 1, providing the liquidity necessary to deal effectively with the crisis.

Finally, ending the dollar’s reserve-currency “privilege,” and its inflationary financing of the federal budget, would make it not only necessary to limit budget deficits—which could no longer be financed by foreign central banks—but also for the first time politically and economically practicable to do so. We joined in proposing a comprehensive (but never enacted) plan to the 1995 National Commission on Economic Growth and Tax Reform, based on the Reagan strategy of combining a low-rate, broad-based income tax with a balanced, pay-as-you-go Social Security system. The plan remains eminently feasible.

Neither reforming the international monetary system nor balancing the federal budget could be done without serious national and international discussion. But the technical problems have been long studied and are relatively straightforward. The main action item for President Obama should be to put the reserve-currency addiction on the way to extinction before—not after—its congressional and foreign monetary co-dependents irreparably harm themselves and all the innocents they have heedlessly placed in harm’s way.

Doing so would require Obama to overcome objections from the dominant factions in both parties. Yet putting the common good ahead of political expediency is what distinguishes a great president from a mediocre one. The challenge is great, but so is the reward for doing the right thing. **NR**

How Does This 69-Year-Old Doctor Have The Body Of A 30-Year-Old?

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Jeffry Life, MD, pictured at age 67, after Cenegenics as featured in GQ magazine.
This photo is not enhanced in any way.

Dr. Life, pictured at age 57, before Cenegenics.

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the bent pin

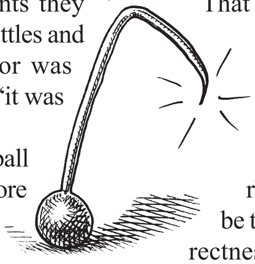
FLORENCE KING

'Iceberg, Right Ahead!'

In keeping with the provisions of the No Columnist Left Behind Act, herewith my thoughts on Election 2008 . . .

Did you know it's entirely possible to drink a whole bottle of vodka a day with no hangover or other ill effects if you use milk as a mixer? I did it the last week of the campaign. I don't know what size the bottles were because I don't understand these new foreign measurements they use now, but they were whole bottles and I polished them off. My doctor was alarmed. "Don't worry," I said, "it was skim milk."

I wish I had invented this highball earlier to help me through the more surreal aspects of the late fall coverage. The craziest moment came during a Palin rally when the camera found a sweet little old lady, who looked like a housemother back when girls' dorms still had them, holding up a sign that read, "I Support Unwed Mothers." Some 50 years ago she might have been one of those beauty-contest winners who solemnly announced, "I'm for world peace and mental retardation." For a frightening moment I lost all track of time.



I also lost track of Joe Lieberman. Was he a Democrat turned Republican, or the other way around? My mind kept going on three-second delay. Once I caught myself staring bemused at the TV, wondering why he was at the wrong rally. Not that it would matter much; all you have to do is point him in the direction you want him to go and squeeze him, and he'll ooze on over. It's easy to lose track of him because he defies the iron Law of Possibility: The only difference between toothpaste and Joe Lieberman is that you can put him back in the tube.

Florence King can be reached at P.O. Box 7113, Fredericksburg, VA 22404.

For a flying leap into surrealism, try the colors that now represent the two political parties on electoral maps. Whoever heard of red standing for conservatives and blue for liberals? It should be the other way around. The Jacobins and the Bolsheviks both traded blue for red; the fleur-de-lys on a blue field became the tricolor, while the powdery blue of czarist trappings became a solid red field sporting a hammer and sickle. After all, blue is the color of veins when they are all in one piece, and red is the color of veins sliced open by bloodthirsty revolutionists.

That our brave new maps were cooked up by liberals goes without saying. Somebody out there wants to train the electorate to think red is short for "redneck" and blue rhymes with "true." Or maybe the guardians of political correctness see the new maps as an oblique way of raising the specter of neo-McCarthyism to keep "red" from becoming a synonym for liberal. They at least see through the game, but more worrisome are the liberals to whom the maps actually make sense. These are the far-lefties who hurl charges of "Nazi!" and "Hitler!" at any conservative who opens his mouth. College-educated cretins stuffed full of "relevant" courses, they are so ignorant and unlettered that they never met a fleur-de-lys or a czar they could identify. Hitler is the only bad guy they've ever heard of, and they think the only red flag in history is the one with the swastika on it.

The color switch started a few elections ago, but this time it really got to me in a physiological way: I am right-handed, and every time I tried to do a rapid scan of an electoral map I felt as if I were trying to write with my left hand. In earlier times, children forced to do this had nervous breakdowns. If you doubt that it's possible to create a nation of febrile voters trained to zig when they want to zag, try writing with your "other" hand and see how long it takes your stomach to knot up and start shaking.

Surreal, surrealer, surrealest. The commercial breaks took the cake.

The ambulance chaser recruiting for class action: "If you or a loved one died from using this product, call me!"

The three-year-old vomiting stock trader crowing in a deep baritone: "I just bought stock! You just saw me buy stock! There's nothing to it! Anybody can—ARRRGGHHH."

Believe it or not, I had some thoughts on the issues along the way. Gay marriage was the easiest to dispense with because I am neither a Republican nor a conservative. I am a reactionary, thus I am against tinkering with a good old-fashioned perversion.

While the never-ending debate over abortion is wearing me down, I take a stringent position on babies who survive abortion. Not because of religion—I have none—but because I'm a stickler for fair play. Abortionists should take their cue from hangings in the Old West: If the rope broke, the accused went free. Any abortionist who does not make every effort to save a surviving baby should be charged with second-degree murder.

What intrigued me most was the snarling contempt and hysterical loathing of Sarah Palin by both liberals and some conservatives. I think I've figured it out.

Winston Churchill once observed: "If a woman has 'It,' she doesn't need anything else; but if she doesn't have 'It,' it doesn't matter what else she has." This sets up an either/or that people can grasp, but put them together and you overload the circuits. Palin's problem is that she combined a too-muchness with a not-enoughness and ended up personifying Emily Dickinson's lines about "a certain Slant of light, / Winter Afternoons— / That oppresses, like the Heft / Of Cathedral Tunes." A disturbing contradiction, an unbearable contrast, that took the form of wholesome sex appeal, family-values oomph, and dropping g's instead of panties.

But far be it from me to criticize a woman most conservatives adore, so I'll just say that I think it would be altogether fitting and proper for Palin to run for president in 2012, the centennial of the *Titanic*. **NR**

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We did find a magnificent cache of cultured pearls at the best price that I have ever seen. Our pearl dealer was stuck. A large luxury department store in financial trouble cancelled a large order at the last minute so we grabbed all of them. He sold us an enormous cache of his roundest, whitest, most iridescent cultured 5 ½–6mm pearls for only pennies on the dollar.

But let me get to the point: his loss is your gain. Many of you are wondering how you're going to handle the coming holiday gift season. In the past, Stauer has made the Holidays merrier with the absolute lowest prices on fine jewelry and luxury goods. This year, we've really come to the rescue.

For the next few days, I'm not offering this cultured pearl necklace at $1,200. I'm not selling it for $300. That's because I don't want to SELL you these pearls at all... I want to *GIVE* them to you. This cultured pearl necklace is yours **FREE**. You pay nothing except basic shipping and processing costs.

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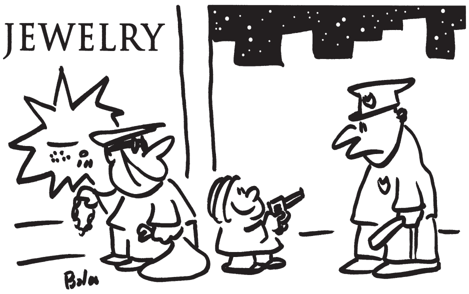
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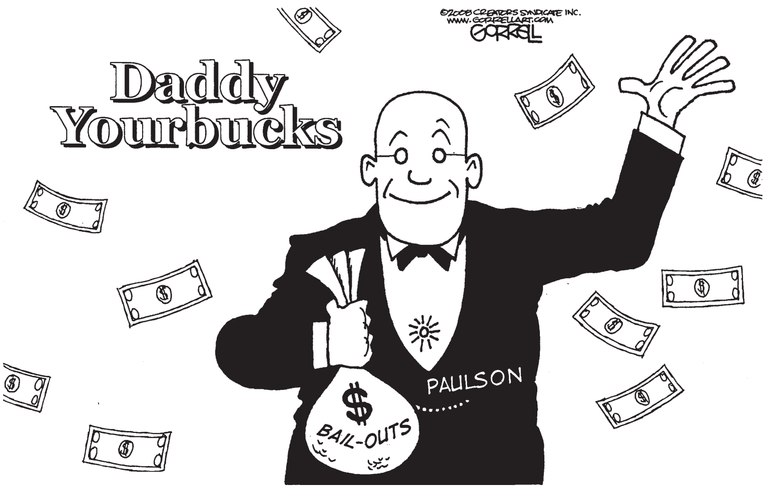
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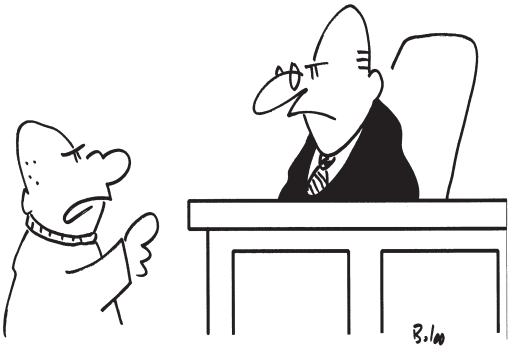
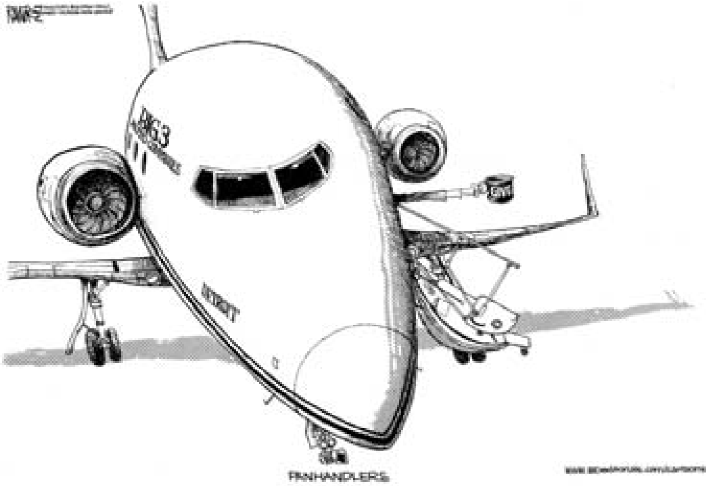
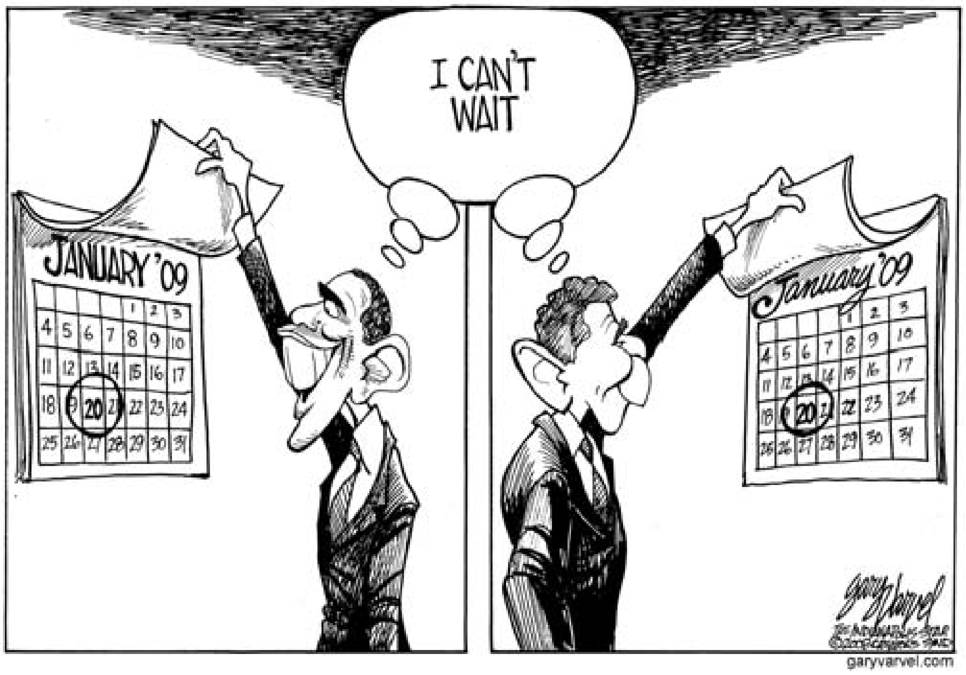


"Hah! I've been found in contempt by better judges than you!"


BIG 3
DETROIT
PANHANDLERS


I CAN'T WAIT
JANUARY '09
January '09
Gary Varvel
garyvarvel.com

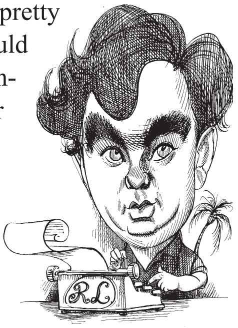
the long view

ROB LONG

NSA Surveillance Transcript Mobile-Phone Transmission

[Static. Dialing.]

FEMALE VOICE: Hello?
MALE VOICE: Hi. Hillary? This is Barack.
SENATOR CLINTON: Mr. President-elect, it's nice to hear from you. Thanks for calling.
P-EOTUS: Glad to. I know that you and I haven't spoken directly about some of the things that have been discussed between our two groups.
SENATOR CLINTON: Well, I'm just happy that you could take the time to talk one-on-one.
P-EOTUS: Of course. Now, I understand that you've got some reservations about the job at State.
SENATOR CLINTON: Can I be frank? I'm honored, of course, to be considered. But I'm also concerned about access, about being able to talk to you regularly, one-on-one, about the issues that come up in foreign policy. And I guess that's why I wanted to speak to you directly—just between us, to get this clear.
P-EOTUS: No, no, I get it. I get it. And look, Hillary, I wouldn't have asked you if I didn't think [garbled audio].
SENATOR CLINTON: Mr. President-elect? I didn't get that.
UNIDENTIFIED MALE VOICE: I didn't get that either.
P-EOTUS: I just said that I wouldn't have asked you if I didn't expect to be regularly speaking with you directly. It's your judgment and discretion that I . . . wait, who was that?
SENATOR CLINTON: Who was who?
P-EOTUS: Somebody else just said something on this line.
UNIDENTIFIED MALE VOICE: That was me.
P-EOTUS: Who is this?
SENATOR CLINTON: Oh, that's Jon Alter, from *Newsweek*. I asked him to hop on the call. Is that okay?
P-EOTUS: Not really. I thought this was a one-on-one deal.
SENATOR CLINTON: It is! It is! It's just you and me and Jon Alter from *Newsweek*.
UNIDENTIFIED MALE VOICE: And me.
SENATOR CLINTON: Oh, right. And Adam Nagourney from the *Times*.
ADAM NAGOURNEY: Hello, Mr. President-elect.
P-EOTUS: Um, hi.
SENATOR CLINTON: And that's it. Just those guys. And me. And Dana Milbank from the *Post*.
DANA MILBANK: Hi, Mr. President-elect!

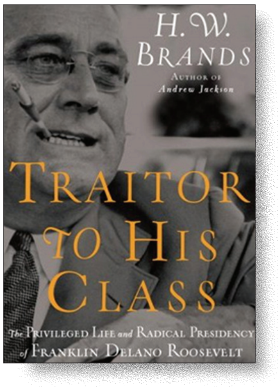


SENATOR CLINTON: It's a pretty small group, actually. We could conference them all in without having to use the server farm we set up in the desert.
P-EOTUS: This is sort of a lot of people.
SENATOR CLINTON: Not really. It's just so much more efficient to have them on the line at the time, rather than tracking them all down later and telling them what everyone said and thought and did. I mean, this just cuts right through all of that back-and-forthing and stuff.
P-EOTUS: Um, well, this is really not what I . . . I mean I may have to rethink—
SENATOR CLINTON: Before you go on, Mr. President-elect, may I just say something? I'd like to say that I accept. I'm honored and thrilled and eager to get started. And I accept your nomination to be the next secretary of state, and to be a kind of "super" secretary, with unprecedented access to you, and with an almost unlimited portfolio. Thank you, sir. Thank you so much. Guys, did you get that?
JON ALTER: Got it.
ADAM NAGOURNEY: Got it.
DANA MILBANK: Got it.
P-EOTUS: Um, well . . .
SENATOR CLINTON: Fellas, I think you might want to play around with the title "Super Secretary" or "Super Cabinet" or something that really shows the difference between what I'm going to be doing here and what someone like, I want to say, someone like a Bill Richardson or a who-knows-who is going to be doing. I'm sort of a floating-above-it kind of figure here, guiding and shaping and helping this very new, very inexperienced, untested president find his sea legs. It's like, you know, I can't help but think about when I was younger and I'd go hunting with my father, and we'd be hunting and we'd see the young newborn ponies just stumbling around, all legs and gawky ears and things, and then the tough mare would sort of bite them and nudge them and spit at them to get them in line. It's like that. Write that down. Did you guys get that? Should I repeat that?
P-EOTUS: Wait a minute . . .
DANA MILBANK: Got it.
JON ALTER: Got it.
ADAM NAGOURNEY: Got it. Hunting for ponies. Got it.
SENATOR CLINTON: No, I didn't hunt ponies. Did I? What did I hunt for?
UNIDENTIFIED MALE VOICE: Ducks, honey.
SENATOR CLINTON: Right, ducks.
P-EOTUS: Is that . . .
SENATOR CLINTON: Say hi, Bill.
BILL CLINTON: Hey, Mr. President-elect. How's it?
P-EOTUS: Not so good. What just happened?
BILL CLINTON: Get used to it, bro.

[Static.]

END EXTRACT

The Old New Deal


H. W. BRANDS
Author of Andrew Jackson
TRAITOR TO HIS CLASS
The Privileged Life and Radical Presidency of Franklin Delano Roosevelt

Traitor to His Class: The Privileged Life and Radical Presidency of Franklin Delano Roosevelt, by H. W. Brands (Doubleday, 888 pp., $35)

CONRAD BLACK

THIS is a rigorous and readable work by H. W. Brands, a very accomplished biographer. At 824 pages of text, it is not overlong for its complicated subject, but it is a bit eccentric about what is included and what is left out. Thus we have two pages on an obscure press conference about the applicability of the unconditional-surrender policy to post-Mussolini Italy (it was waived), and two pages about whether the U.S. would send troops to Malaya in 1942 (a mad idea that was not seriously considered).

Yet the reader scours the book in vain for a reference to Joseph P. Kennedy's famous telephone call to William Randolph Hearst during the Democratic convention in 1932, to help clinch the nomination for Roosevelt; or to the careful calculations behind Roosevelt's neutrality in the Spanish Civil War, where most Americans favored the Spanish Republicans, but most American Roman Catholics supported Roosevelt but also supported the Spanish Loyalists (a different course could have lost him the 1940 election). There is no mention of Federal Reserve chairman Marriner Eccles, and particularly not of his important Keynesian intervention to help reverse the economic relapse of 1938. Roosevelt's prescient warning to Stalin in August 1939 that a non-aggression pact with Hitler would lead to a German attack on the USSR in two years isn't recorded here.

The historical minuet with Japan prior to Pearl Harbor is sketchily covered. Japan imported 85 percent of its oil from the United States. Roosevelt imposed a virtual embargo on oil exports to Japan, as well as on scrap metal that was vital to the Japanese steel industry. When he and Churchill met in August 1941, Churchill asked for these embargoes to be made absolute; he wanted the U.S. to help protect Malaya and Hong Kong from the Japanese, and sought to provoke war between Japan and both Britain and the U.S., Hitler not having swallowed the bait of Roosevelt's considerable provocations.

Roosevelt declined, saying he wished to retain some leverage to promote a more conciliatory Japanese attitude. He was unaware that his undersecretary of state for economic affairs, Dean Acheson, had rejected the Japanese request to buy American oil, and had effectively imposed his own embargo. FDR discovered this when he returned to Washington and looked into it, but he didn't reverse Acheson's "policy." There is brief reference in this book to Roosevelt's "modus operandi" of 1941, which would have partially lifted the embargo, but no analysis of why FDR withdrew it. Roosevelt weighed whether to press Japan so hard it would be likely to go to war, or whether to relent somewhat to enable the U.S. to continue its massive rearmament program in peace. His concern, then and subsequently, was whether Stalin would leave the German war, as Lenin and Trotsky had done in 1917.

As the Japanese leaders considered whether to attack to the south, to secure more oil (from what is now Indonesia), the Germans were swarming toward Moscow and Leningrad. When Japan did turn south and deployed its forces away from the Manchurian border with the USSR, Roosevelt advised Stalin, who was able to deploy 400,000 soldiers from the Far East to a last-ditch defense of the country's two principal cities. Roosevelt concluded that it was worth the high risk of imminent war with Japan and probably Germany too, before the U.S. was fully prepared, to avoid the risk that Stalin might make peace and leave Hitler in unshakeable control of Europe.

Brands rightly criticizes the imprudence of Hitler's invasion of the USSR, but Hitler knew that he couldn't subdue Britain and was already at war with the U.S. by several criteria. If his relations with Roosevelt descended into outright hostilities, he could not rely on Stalin to avoid Anglo-American inducements to attack Germany.

These equations aren't really addressed here. Brands describes the first meeting between Roosevelt and Stalin just before the start of the Tehran Conference in 1943, but does not refer to the main point of it: Roosevelt recruited Stalin to support the cross-Channel invasion of France over Churchill's preferred operations in the Mediterranean and Adriatic, or even Norway. This was one of Roosevelt's greatest successes: Stalin allegedly believed, as the chairman of the British general staff, Sir Alan Brooke, did, that Hitler would be helpfully distracted from the Eastern Front—but Stalin (and Brooke) also thought that Hitler would ultimately push the Western Allies out of France as he had at Dunkirk and Dieppe. Thus, Roosevelt recruited Stalin, the emerging chief future rival of the U.S., to override the caution of Churchill, America's greatest and truest ally. (Brands is gratuitously critical of Churchill at times; he virtually accuses him of causing the Great Depression with his policies as chancellor of the exchequer in the 1920s.)

There is no mention here of the 1944 Warsaw Uprising, of the Morgenthau

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Mr. Black is the author of *Franklin Delano Roosevelt: Champion of Freedom* and *Richard M. Nixon: A Life in Full*.

Plan for the pastoralization of Germany, or of the European Advisory Commission (which demarcated post-war German occupation zones). Nor is there reference to either Quebec Conference (or indeed Canada in any significant context, including that Canadians took one of the five beaches at Normandy).

Nonetheless, the author very accurately summarizes the strategic interests and actions of the Big Three, and steers admirably clear of the ancient and unutterably irritating Yalta Myth, i.e., that Roosevelt was swindled by Stalin into handing over Eastern Europe. The balancing act between atomic development and the desire to have the USSR take a large share of the casualties if an invasion of the Japanese home islands did prove necessary is also well and fairly presented.

Brands is overly indulgent of Roosevelt's outrageous meddling in Britain's relations with India. He accurately writes that Roosevelt believed India had been pillaged by Britain for two centuries, and that Roosevelt had some doubts about the fighting qualities of the British Indian army, but seems to have some sympathy for these mistaken, even ignorant, opinions. The British controlled the Indian Empire of 500 million people with never more than 100,000 resident British, about three-quarters of them military, and they did so with less bloodshed and brutality than the U.S. southern states inflicted on 10 million blacks over the same period. The Indian army of 3 million was a first-class fighting force and Brands is right, as well as insightful, to point out that this strategic asset was vital in allowing Britain to take its place at the high table with the Russians and Americans.

Churchill made short work of Roosevelt's flippant comparisons of India to revolutionary America. Roosevelt's posturings in support of Gandhi were also tiresome, as Churchill patiently suggested when he mentioned Gandhi's desire to offer the Japanese free passage through India to join up with Germany in attacking Russia and the Middle East. (Unfortunately, he spared mention to FDR of Gandhi's proposal to the European Jews to acquiesce in being genocidally liquidated to achieve historic admiration and eternal peace.) In other respects, Roosevelt's concern about the potential flammability of colonial areas was well founded, and Brands is right to credit him for it. Less impressive is the author's indulgence of Roosevelt's fatuous courtship of Vichy France, and of his lengthy underestimation of de Gaulle (partly corrected in the last year of his life).

His handling of Roosevelt's domestic record is consistently strong, but concedes more than it should to the conventional wisdom that the New Deal was fundamentally unsuccessful against the Depression. Brands correctly recognizes that Roosevelt's greatest genius, apart from the political arts, was his talent at raising and sustaining public morale and inspiring the nation. But he follows the lead of other distinguished pro-Roosevelt historians, including William Leuchtenburg and Doris Kearns Goodwin, in accepting the assertion that U.S. unemployment levels were much higher through the Thirties than those in Germany, Britain, or France. To the extent there is any truth to this, it is because the people drafted into the armed forces or defense industries in huge numbers by those countries in the mid and late Thirties are accepted as employed, while Roosevelt's millions of workfare participants are not. (Even if those in the New Deal workfare programs are considered unemployed, the New Deal brought unemployment down from 33 percent in 1933 to 12.5 percent in 1936, and to 1 percent in the summer of 1941.) The New Deal had its shortcomings, but it was a social, economic, and cultural success, as well as a popular success that assisted Roosevelt to three reelection victories with an average of over 55 percent of the vote.

Brands's enumeration of FDR's immense achievements is well and irrefutably argued.

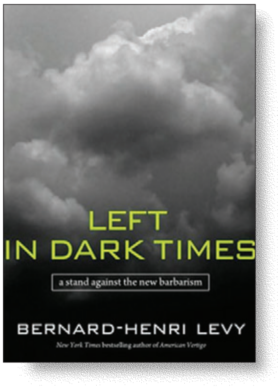
Unfortunately missing from the chronicle of Roosevelt's astounding political virtuosity is the disenfranchisement of almost all of the 13 million members of the armed forces outside their normal voting districts in 1944. The southern Democrats and conservative Republicans united to prevent, respectively, the blacks from acquiring the habit of voting, and the soldiers, sailors, and airmen from voting for their commander-in-chief. Only Roosevelt's great popularity and unassailable record as war leader prevented a disgraceful theft of the 1944 election.

There are an inexplicable number of small errors in this book. John N. Garner had no interest in being vice president in 1932; Roosevelt wasn't "haunted" by his pledge in 1940 not to send American youth into foreign wars; he did not regret giving the 1937 Quarantine speech; Henry Wallace wasn't the vice president in September 1940; and the sinking of the British capital ships *Prince of Wales* and *Repulse* did not cause the fall of Singapore, which was attacked and overrun by land. There was no possibility that Churchill would come all the way to Washington on HMS *Duke of York* in December 1941, because the Potomac and its bridges are inhospitable to 40,000-ton battleships drawing 35 feet of water and looming 140 feet above the water. These errors and others are trivial, but they are distracting. There are 57 short chapters, which assists readability in some ways, but makes the book somewhat episodic and impedes a gripping narrative, which Roosevelt's career can certainly incite.

The book is well written and has some light moments. Of FDR adviser Louis Howe, Brands writes: "He knew where Tammany had buried the bodies (metaphorically for the most part)." Stalin "didn't shoot his subjects as often as he had during the 1930s, in part because the Germans were shooting so many that he couldn't afford to waste the remainder."

The author's basic conclusions—on Roosevelt's leadership qualities, physical courage, personal magnetism, political ingenuity, and moral authority—are well and eloquently made. His enumeration of his subject's immense achievements, in redefining American government and integrating the country into a world desperately in need of American ideals and strength, is equally well and irrefutably argued. This is a slightly idiosyncratic book, but is not less interesting for that, and it is a valuable addition to the Roosevelt literature. **NR**

Left Behind


LEFT
IN DARK TIMES
a stand against the new barbarism
BERNARD-HENRI LEVY
New York Times bestselling author of American Vertigo

Left in Dark Times:
A Stand Against the New Barbarism,
by Bernard-Henri Lévy
(Random House, 256 pp., $25)

CLAIRE BERLINSKI

A curious thing happened as I was reading Bernard-Henri Lévy's latest book: I found myself moved.

It begins with an account of a phone call from Nicolas Sarkozy in March 2007. Lévy recalls Sarkozy's triumphant tone as he asked whether Lévy had seen André Glucksmann's article in *Le Monde*. Glucksmann, like Lévy a prominent intellectual of the kind France particularly treasures and like Lévy a man of the Left, had just announced his support for Sarkozy against the pretty socialist airhead Ségolène Royal. "Let's get to the point," Sarkozy says to Lévy, cutting him off in mid-pleasantry. "When are you going to write your article about me? Huh, when? Because Glucksmann is fine. But you, after all, are my friend."

Lévy is steamrollered in the face of Sarkozy's *force majeure*. "No matter how much I like you," he at last stammers, "the Left is my family, and . . ."

"Emmanuelli, your family? Montebourg, your family? The people who've spent thirty years telling you to go f**k yourself? Do you really think I'm an idiot or do you really believe what you're saying, that these people are your family?"

Lévy captures both Sarkozy's unctuousness and his steroidal aggression—but captures, as well, his paradox: The man is *right* about a great many things and braver by far than his enemies. *It is I, not Ségo, who speaks out about Chechnya, about Darfur; it is she, not me, who praises Hezbollah and extols the virtues of the Chinese justice system . . .*

Sarkozy hangs up; Lévy is left uneasy. "Unfortunately," he writes, "he was right. . . . The Left to which I had stayed faithful was behaving strangely."

At that point, he remarks, this book began. The first half of the book may best be described as Lévy's apology for voting against Sarkozy all the same. It reflects the thinking of a deeply conflicted man, and while it is to be applauded for its honesty, it cannot be celebrated for its rigor: Again and again, Lévy refuses to follow his own arguments.

Lévy rightly scorns the relativist who has "nothing against the stoning of adulterous women in Afghanistan. Nothing against mutilating the genitals of young girls"; he rightly acknowledges that the Left was blind to the evils of Stalinism and a host of other evils as well. He is of course not the first man of the Left to note this: The American neoconservative movement was made up originally of refugees from the Left; 9/11 prompted fresh apostasy among such figures as Christopher Hitchens and Nick Cohen (whose *What's Left?* is a more disciplined book). Lévy's observations are more or less those made (with welcome Anglo-Saxon verbal economy) by the drafters of the 2006 Euston Manifesto in Britain.

But Lévy cannot bring himself simply to reject and renounce the Left. Like a battered wife remembering from her hospital bed the exquisite roses her husband once brought her, Lévy lets his beautiful memories of Rosa Parks and Martin Luther King prevent him, too, from petitioning for divorce. No, he argues, the Left is still the place for the pure of heart; it must only remember what it stands for, to wit, the instinct to support the Dreyfuses of the world, the "good memory of antifascism," the lessons of anticolonialism and antitotalitarianism. This is well-meant, vaporous, and empty. We remain with the question: Is it the Left or the Right that supports the Dreyfuses of the world and opposes colonialism, fascism, and totalitarianism?

Lévy makes the case that the Left is morally unmoored, but nonetheless insists he will remain of it—a policy as ruinous in politics as it is dangerous in seamanship—for one belongs on the Left, he insists, if one sympathizes with human suffering. "Man," he writes, "the man of the Left, is the only animal who can shed his own self to enter, without fusion or effusion, someone else's mind and heart." Now, this is first of all not true on the face of it, and Lévy offers no evidence to the contrary. The evidence we do have suggests that those who describe themselves as men of the Right tend to give more—a lot more—to charity. In any case, if the Left stands on its natural sense of sympathy, its defense is not apt to persuade those who believe it more important to *rectify* than to sympathize with suffering; Lévy himself offers ample evidence that many of the Left's schemes, however well-intentioned, in the end increase the sum of suffering.

Elsewhere too Lévy seems unwilling to follow his own thoughts. He concedes that there was a "whiff of barbarity" about the rioters who torched the suburbs of France in 2005, but cannot bring himself to agree with Sarkozy, who condemned them as "scum," for, he admits, *all* the historic riots so beloved to the collective memory of the Left were barbarous. "The Paris Commune, for example . . . do we really think that event was purely grandiose, majestic and glowing, worthy of entering, all of a piece, the golden legend of the Republic?" No, I don't. But I'm not the one with a contradiction in thought to defend.

Lévy rightly deplores the exclusion of these *banlieues*, suburban ghettos, from French society. He sympathizes with their inhabitants. But he does not ask—much less answer—the important questions, important, at least, if he is trying to buttress the case against Sarkozy he implicitly sets out to make. Beyond saying that this situation makes him feel bad—because he is a sympathetic man—and beyond suggesting that it might be best for France were its leaders to use

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Claire Berlinski is the author, most recently, of *"There Is No Alternative": Why Margaret Thatcher Matters.*

mollifying rhetoric to describe the inhabitants of the suburbs (rather than suggesting, as Sarkozy did, that they be treated to the business end of an industrial-strength fire hose), what can be done to improve things?

Here there is an important debate between the Right and the Left, one that is of much greater moment than a debate over rhetoric: Should France attempt to reduce barriers to entry into its workforce by liberalizing its economy? Or should the state instead redistribute income from France's wealthier citizens to the inhabitants of the suburbs? I am willing to be persuaded that the more sophisticated theorists of the Left may have something worthwhile to say about this, but is it too much to ask to see the argument and look at the evidence? An appeal for compassion for the wretched of the *banlieues* is not a policy prescription. Nor is it a reason to regret the defeat of Ségo, who more than ever seems determined to become the Eva Perón of French political life.

But then we come to the second half of the book, where Lévy denounces the anti-Americanism and anti-Semitism of the modern Left, and here something remarkable occurs. Now, I confess to an interesting experience: I read this book out loud. This, obviously, is how Lévy intended it to be read, and read this way, this part of the book is exceptionally effective. Those easily mocked exclamation points and sentence fragments and one-sentence paragraphs and long, run-on passages when *declaimed* acquire an extremely powerful rhythm.

My listening audience was a Turkish friend (I live in Istanbul) of half-formed but vaguely leftish political sensibilities, prone, like most Turks, to believing the worst of America and raised in a climate where the proposition "Israel is the world's worst nation" is taken as a self-evident statement on the order of "The Armenians had it coming." When I came to the passages in which Lévy denounces the moral disgrace, the appalling apologetics, the sheer imbecility of a Left that would dismiss the suffering of the persecuted of Darfur on the grounds that admitting it might encourage the Americans—the *Empire*—to intervene, I saw something in his eyes that I had not seen before: a visceral and emotional understanding. For Lévy's voice, here, is powerful, it is scathing, it is thunderous and outraged; it places this failure in its historical context, it is deeply learned and rich with authority, and it is the best indictment of its kind in print.

His condemnation of the 2001 anti-racism conference in Durban is masterly. His reply to those who would diminish or deny the Holocaust is eviscerating. His response to apologists for fascist Islamic movements is furious and deserves to be the final word on the subject. It is entirely worth suffering through the book's first half to reach his devastating rebuke to Chomsky, Pinter, Badiou, Galloway, Carter, and a long list of similarly craven fools.

Thus the book leaves the reader with a question. If Lévy knows all of this, and obviously he does, why was he "literally incapable" of voting for Sarkozy? Why did he bother with the first half of this book at all? Surely a man of his intellect isn't *really* persuaded by the silly arguments he makes in defense of the Left? There are deep and unexamined emotional issues at work here, but the book is no less fascinating for that. **NR**

The Epic of Finance

The Ascent of Money:
A Financial History of the World,
by Niall Ferguson (Penguin,
432 pp., $29.95)

ALLAN H. MELTZER

THE *Ascent of Money* is yet another in Niall Ferguson's series of very readable and enjoyable books. As the subtitle suggests, the book is not about money per se, but about financial development, tracing it from the earliest times to the present.

Mr. Meltzer is a professor of political economy at Carnegie Mellon University, a visiting scholar at the American Enterprise Institute, and the author of *A History of the Federal Reserve*.

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Ferguson says that people are ignorant about money and finance, and he wants to educate them. He cites three specific lessons he learned while writing the book. First, contrary to what many believe, "poverty is not about rapacious financiers exploiting the poor [but] has much more to do with the lack of financial institutions." Second, people swing from exuberance to despair, and this amplifies booms and busts. Third, "few things are harder to predict accurately than the timing and magnitude of financial crises." All three are important lessons; if members of Congress learned them, they might stop looking for scapegoats.

Major episodes from financial history illustrate these themes without insisting on them. Ferguson is a good storyteller and a disciplined historian, so the narrative is both rich and accurate. He details, for example, how the gold that the Spanish took from the New World enriched Spain, but was not used to build productive capital. Ferguson could have made even more of Spain's failure in this regard: Because the Spanish didn't understand the importance of building productive institutions, much of the Spanish treasure ended up wasted, sunk to the bottom of the English Channel.

The ascent of finance starts with the moneylenders. Ferguson tells the story of Shylock and the Christian and Islamic prohibition of interest to illustrate the early detestation of finance and financiers. By our era, financiers had become Masters of the Universe, so clever that they invented financial instruments that few could understand. How did they get here, from such inauspicious beginnings? A big step forward came in the 17th century, with the development of fractional-reserve banking, which greatly increased the incentive to engage in finance. Central banking gained ground in the 19th century.

Walter Bagehot, an economist and editor of a magazine called *The Economist* that survives to this day, described the workings of financial markets and proposed an explicit rule for central banks operating in a financial crisis: "Lend freely at a penalty rate" to those with acceptable collateral, and let the others fail. No less important, Bagehot urged the Bank of England (and others) to announce the Bagehot policy and follow it. The Bank followed Bagehot's policy for almost 100 years, with great success. Bankers knew the rule and understood the penalty for excessive risk-taking. In contrast, the U.S. Federal Reserve has never stated any rule and acts inconsistently. Some receive direct assistance; some are allowed to fail; and some are helped to find lenders. Uncertainty increases, and bankers believe that they can be spared or bailed out if they have political support. The famous 18th-century financier John Law could not have produced his financial "bubble" without support from public authorities. (Ferguson does seem to stretch things a bit, however, when he compares John Law to Kenneth Lay and Enron.)

Ferguson says the oft-repeated story about Nathan Rothschild at the London Stock Exchange immediately following the battle of Waterloo—that advance knowledge of the British victory permitted him to speculate successfully on British government securities, and was the source of his great wealth—is not true. In fact, the family fortune was founded on consistent good judgment and broader access to information. Rothschild brothers communicated from all the major European cities. They had an early understanding of the value of information that much later became the centerpiece of the efficient-markets theory of finance.

SAINT JEAN-BAPTISTE
A GREGORIAN CHANT

The columns turned from stone to birch,
Enchanted forest, turned from church.
The voices made for God by Man
Now rose to oakleaf cross-vault span.
Of words unknown in ancient tongue
Cathedral echoed, magic sung.
The chandeliers burst forth warm flame.
Acanthus leaves no more were tame.
The galleries by pillars held
Became the tree homes, newly felled.
In Notre Dame sat I and heard
A forest's gleam. Man's choral word.

—ALEXANDRA WELM

Ferguson points up the destructive role of political intervention—by, for example, successive Argentine governments that did more damage than a great war would have done. (And they continue to do this, with a few, brief interruptions of financial sanity.) Argentina offers lessons for others, including us. Early in our history, Tocqueville warned that the weakest point of democratic government was the opportunity presented for confiscation of wealth and capital by proponents of redistribution.

One of the climactic events of monetary history occurred in Germany after World War I. The Weimar Republic financed large budget deficits by printing money. The result was the world's most famous hyperinflation. Ferguson follows many others in suggesting that the government thought that inflation would lower the exchange rate, thereby increasing exports that would satisfy the reparations demands of the victors. Here and elsewhere, but not everywhere, Ferguson does not distinguish real and nominal values. The nominal exchange rate fell rapidly but domestic prices rose at least as rapidly, so the exchange rate relevant to foreigners, the real (inflation-adjusted) exchange rate, did *not* promote exports. Ferguson points out that imports surged, suggesting that Germans found imports cheaper than domestically produced goods despite currency depreciation. He fails to draw the correct conclusion about the real exchange rate.

The book brings financial development up to the current housing crisis. Here and in his discussion of the savings-and-loan debacle of the 1980s, Ferguson blames deregulation and rogues for the problem. This is popular but wrong. Inflation and interest-rate ceilings for deposits (Regulation Q) were at the root of the savings-and-loan crisis. There were a few rogues, but their chief importance was as scapegoats for a Congress anxious to avoid responsibility for combining inflation and interest-rate ceilings. As inflation rose, lending rates far exceeded the rates the thrift associations paid to borrow. This was not a mystery; economists pointed repeatedly to the problem. By the time Congress acted, much of the damage had been done. The Reagan-Volcker disinflation gave the coup de grâce. Short-term rates at which the thrifts borrowed soared far above the historic mortgage rates that thrifts earned on their portfolios. Most failed, especially if they speculated on risky assets knowing that losses would go to the taxpayers and gains, if large, would go to the thrifts.

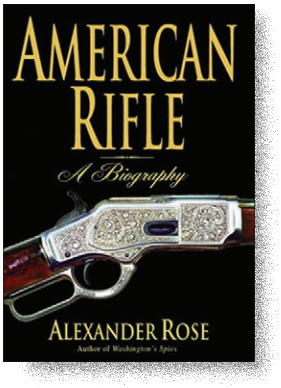
The central lesson is that financial institutions borrow at short-term rates and lend at long-term rates. Whenever there are large, unforeseen changes in the economic environment, problems occur. A history of money is incomplete if it fails to reach this conclusion.

As for the current housing crisis, it would have been mild or nonexistent but for congressional actions. Ferguson points out the destructive role government had in this crisis: The Community Reinvestment Act (1977) gave local interest groups a lever with which to push banks into making loans to low-income families. The American Dream Downpayment Act (2003) subsidized credit for low-income groups. When the latter was passed, Pres. George W. Bush said that it was in the national interest to have more people own their own homes—but he neglected to add, "if they can pay for them." Despite repeated warnings from many sides, Congress encouraged Fannie Mae and Freddie Mac to support these housing programs by buying subprime and other risky mortgages.

In the last chapter of the book, Ferguson comments on the symbiotic relation between a rising China and a declining United States: They save and we spend; they export and we import. He too readily accepts the common story that China's rapid growth will continue. I am more skeptical. China's policy of export-led growth reminds me of earlier successes in Japan and Korea: High growth continued as long as labor moved from low-productivity jobs in agriculture to higher-productivity jobs in industry. But high growth ended when national productivity increases slowed with the end of the movement from country to city. This will happen in China.

China demonstrates that mercantilism is alive and well. Import-led consumption by the United States has been essential for the success of that strategy. The future will probably be very different. Despite the enormous success of free trade in raising living standards in all parts of the globe, restrictions on trade by the developed countries seem more likely at present than moves toward freer trade. **NR**

Politics in The Round



American Rifle: A Biography,
by Alexander Rose
(Delacorte, 512 pp., $30)

KEVIN D. WILLIAMSON

THE rifle is an instrument of politics, and Alexander Rose's new book, *American Rifle: A Biography*, is a study in the realpolitik of pushing lead. Beginning with the rifle's early days in the capitalistic ferment of colonial Pennsylvania's German enclaves and progressing through the M16's challenges in Iraq, Rose has written one the most interesting nonfiction books of the year.

Rose begins with a portrait of George Washington—literally, with Charles Willson Peale's painting of the father of our country: Washington's middle-aged body is squeezed into a tailored uniform dating from his youth. Along with the details of his uniform, Washington made sure that the painting included his rifle, most likely the bespoke John Jost piece he commissioned for the princely sum of 6 pounds, 10 shillings, in 1770. The rifle, distinct from the muskets of the time, would have been considered a newfangled contraption. Washington's conspicuous consumption foreshadows the great themes that would thereafter attend Americans' attitudes toward firearms: our national passion for technological innovation, our tradition of military excellence, our lust for firearms as tokens of status (Cheney had his famous shooting mishap with a

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$25,000 Italian masterpiece), and our understanding of ourselves as a revolutionary nation, founded in ideals made real by deeds of arms. It was General Washington, not Farmer George, who shaped the American presidency.

The rifle wasn't invented in America—the first experiments in "rifling," cutting grooves inside musket barrels to impart an accuracy-increasing spin to the bullet, were made in 15th-century Germany—but it was here that the weapon evolved into its modern form. Immigrant gunsmiths found themselves exiled from Quaker Philadelphia, which judged these artisans a threat to brotherly love. They settled around Lancaster, where they enjoyed easy access to materials and a steady stream of westward-bound travelers in need of arms. The American rifle they developed was named not for the place of its manufacture but for the destination of the men carrying it: The "Kentucky rifle," distinguished by its long barrel and consequent accuracy, became an emblem of American life, at least in what were then the red states. Rose reports that there were rifle shops in Baltimore, Alexandria, Cumberland, Charlotte, and Augusta, but not a single rifle dealer east of the Hudson.

Rose tells a long and complex story tied together by broad ideological themes, but this book is no scholarly trudge.

The Kentucky rifle shaped American military tactics from the Revolution forward. The American ideal of the soldier is a democratic and entrepreneurial one: a semi-autonomous sharpshooter integrated into a disciplined command structure but capable of a wide range of independent action. The musket was suited to the rigidity of European warfare, with its aristocratic commanders and disciplined lines. The rifle enabled the light and fast precision tactics that remain familiar to students of American warfare today.

Rose tells a long and complex story tied together by broad ideological themes, but this book is no scholarly trudge. It is packed with fascinating anecdotes—e.g., the urine of dipsomaniacs was a coveted ingredient in gunpowder manufacturing—and keen insights into the nexus of civilian politics, business, and the military.

And there is no shortage of scoundrels in this tale. America's first real modern military rifle, the Springfield M1903, paid covert tribute to the industry's German roots by violating patents owned by Waffenfabrik Mauser and Deutsche Waffen und Munitionsfabriken, the great German armorers. Ironically, the rifles that U.S. troops would carry against Germany in two world wars were made possible by backroom deals after the fact by William Crozier, the army ordnance chief who negotiated royalty payments to the Germans after it became clear that the M1903 designers had ripped off the Kaiser. (Who could blame them? You want a soufflé, call the French; you want to kill people with a great deal of precision, dial Berlin.) The Germans must wish they'd cut a better deal on those royalties.

Crozier is a study in the politics of the progressive era. When Teddy Roosevelt wanted to make him the army's ordnance chief, Crozier was a mere captain—and by law the job required nothing less than a lieutenant colonel. Roosevelt and secretary of war Elihu Root, determined to refashion the army in accordance with the teachings of "scientific management" guru Frederick Taylor, simply gave Captain Crozier a promotion—to brigadier general—and installed him in the job. Like many of the great progressives, Crozier was a mathematician and technician; he had designed an artillery carriage shortly after being graduated from West Point. His first order of business as head of ordnance was overseeing the design of a modern rifle with which to arm Root's modern army. He would find that politics, not ballistics, is the dominant consideration in developing a new military rifle. Lincoln had suffered the same problem when he wanted modern breech-loaders for the army, only to have his desires frustrated by the officious ordnance chief James Ripley, who resisted innovations that did not originate within his own bureaucracy. Ripley had once refused to fulfill a requisition for Gen. Andrew Jackson, who in turn promised to hang him; Lincoln took a politic approach and eventually got what he wanted. Repeatedly, Rose finds, arms development has been dominated by politics rather than the mandate to put the best rifle available into soldiers' hands. Inevitably, that leads him to the live controversy over the M16 rifle and its runty carbine cousin, the M4.

The M16, an American icon, became our national rifle almost by accident. That accident was called the Vietnam War. First put into action by the Kennedy administration for "specialized" use—all those "advisers" in Vietnam—the M16 appeared at the right time: Springfield Armory's contract for its predecessor, the M14, was coming to a close, and the Pentagon's development geniuses had just abandoned a risible flop known as the "Special Purposes Individual Weapon," which was never manufactured. America's commitment to the M16 was a result of our commitment to Vietnam—we had a war and needed a rifle with which to fight it. The "space age" M16 is the Mac of assault rifles, revolutionary in both materials and design, and originally developed by a garage startup in California. And just as earlier innovations had been resisted, the M16 found its foe in young Sen. Edward Kennedy, who understood nothing about rifles but knew how many people were employed by Springfield Armory in Massachusetts. The needs of President Kennedy's war ultimately trumped the needs of Senator Kennedy's pork-barreling.

The M16/M4 has its critics, chief among them Sen. Tom Coburn of Oklahoma, who is skeptical of the weapon and of Colt, currently the exclusive provider for the American military. Rose touches on the disputes regarding the lethality of the M16's round, a small one based on the .22-caliber rifle cartridge and dismissed by its critics as the "poodle-shooter," but he gives insufficient attention to the real concern: that it is not up to the task of putting down enemies protected by the high-tech body armor that is slowly making its way to Iraq, Afghanistan, and other battlegrounds. The future of the M16 is unknown, but Rose reports that just as Vietnam brought the M16 into service, Iraq is helping to ensure that it remains on duty: With the M16 having replaced the ghastly old AK-47 as Iraq's standard rifle, the Pentagon is hesitant, for both political and logistical reasons, to make the move to a new rifle and a new round. The American rifle isn't only an instrument of politics, but an object of politics, too. **NR**

■ FILM ■

Under Done

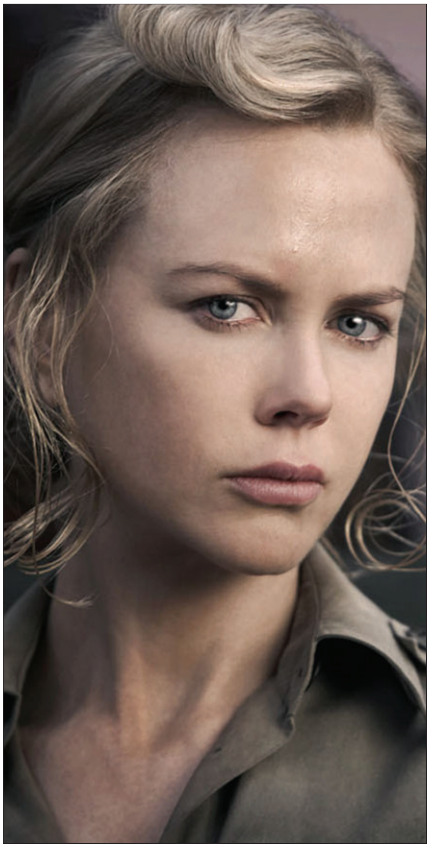
ROSS DOUTHAT

How much enjoyment you can milk out of the 155 minutes required to sit through Baz Luhrmann's sprawling, teeming, and extremely silly epic *Australia* will depend on what you think about its most important character. Here I do not mean Nicole Kidman or Hugh Jackman, who technically headline the film—Kidman as the English noblewoman who inherits a cattle ranch in the late-1930s Outback, Jackman as the rugged Aussie known only as "the Drover" who becomes her business partner and then, inevitably, her lover. Nor do I mean the Land Down Under itself, whose picturesque topography is captured with swooping, soaring, God's-eye camerawork throughout. (The Australian tourism industry has a $26 million ad campaign riding on the hope that the film becomes a hit.) No, the character I have in mind is Nullah (Brandon Walters), the half-caste part-Aborigine boy who becomes a surrogate son to Kidman's Lady Ashley, and whose uneasy racial status provides the jumping-off point for the movie's political ambitions.

Such ambitions are new to Luhrmann, whose past successes—his Shakespeare-as-teen-soap *Romeo+Juliet* and the garish pop musical *Moulin Rouge*—lacked any high purpose save a fierce zeal to entertain. After a seven-year hiatus, though (spent staging *La Bohème* and failing to stage an Alexander the Great epic when Oliver Stone's got off the ground first), he has more serious things in mind. The result is an epic that seeks to marry Old Hollywood grandeur to New Hollywood revisionism: Imagine *Gone with the Wind* refashioned as anti-slavery polemic, and you have roughly the idea of what Luhrmann's going for.

His hot-button subject is Australia's historic treatment of its Aboriginal minority, and specifically the policy—whose actual scope is the subject of considerable debate, though you wouldn't know it from this movie—of tearing half-caste children from their homes and raising them in orphanages, the better to turn them into proper Westerners. The quest to keep young Nullah from this fate, amid cattle drives and Japanese bombing raids alike, provides the movie with what's meant to be its most potent through-line: The bronze-skinned, beaming boy is simultaneously a potential martyr to Australia's racist past and a harbinger of its multiracial future.

And God, how I hated him. Not the actor, who brings a kilowatt smile and an androgynous charisma to a role he's not responsible for crafting, but the character, who occupies the peculiar zone where political correctness shades into precisely the sort of racial stereotyping it's supposed to counteract. Nullah grins and gambols; he chatters in a cloying patois ("we gots to drive-um them cheeky bulls, Mrs. Boss"); and he comes equipped with a mysterious medicine-man uncle (David Gulpilil) who's a pure Noble Savage cartoon, bearded and bare-bottomed and rich with hocus-pocus. The overall effect is Little Black Sambo by way of *Dances with Wolves*: The condescension is intended to be favorable, but it's condescension all the same.



Australia's Lady Ashley (Nicole Kidman)

20TH CENTURY FOX

But maybe you'll feel differently—and if you do, the non-Nullah aspects of the film have enough going for them to make *Australia* at least an intermittently successful guilty pleasure. Luhrmann's métier is melodrama, and at its best the movie offers the mix of sincerity, shamelessness, and spectacle that made his *Moulin Rouge* such a gaudy treat. The plot is a pastiche of war movies and westerns; the hero and heroine are imitations of archetypes from Hollywood's Golden Age (Jackman is basically playing Clark Gable playing the Drover); there are not one but two hissable villains (Bryan Brown as the cruel cattle king Carney, and David Wenham as his sinister right-hand man); and whenever the narrative starts to flag, Luhrmann throws in a tavern brawl or a cattle stampede to keep things interesting. The stars are game, the scenery is stunning, and if you can suspend your critical faculties (and ignore the often dodgy special effects), there's enough sweep here to get swept up in.

And if the hackneyed script and endless third act begin to grate—if your mind turns too often to Michael Bay's *Pearl Harbor*, another big-budget love story featuring a Japanese surprise attack—it's probably because there isn't enough singing. The implausibility inherent in the melodramatic style is ideally suited to a musical or opera: *Moulin Rouge* worked so well, in part, because it *demanded* that the audience suspend its disbelief, by peppering the plot with realism-busting bursts of song. We know, from that film, that Kidman has pipes enough to warble through a musical, and Jackman has headlined on Broadway in the past. If they'd sung their love, instead of speaking it—if *Australia* had been titled *Australia!*—I think there would have been more in Luhrmann's latest film to love, and less to roll one's eyes over.

But he wanted to be serious instead. He wanted to be political, to take on racism and imperialism and the sins of Australia's colonial fathers, and to make something more than a frothy entertainment. The result, perhaps inevitably, is a film that's something less. *Australia* showcases Luhrmann's gifts as a crowdpleaser, but not nearly often enough. You might say they've been Nullah-fied. **NR**

■ CITY DESK ■

As Dreams Are Made On

RICHARD BROOKHISER

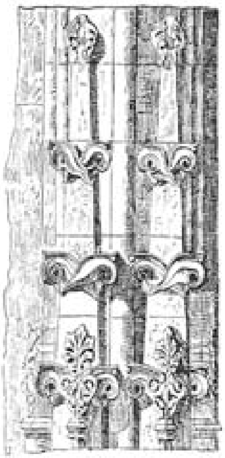
We’re new. We put it in our name. When we stop looking ahead, remove the internal organs and inject formaldehyde; we’ll be dead. And yet a time comes when even a New Yorker realizes that, simply by staying put, in this world and in one spot, he has seen places that have vanished, and known people that no one can ever meet. Everyone is a historian, every life is a city.

Some things are better off gone. In Union Square today, farmers sell rutabagas, dogs run, guys fall off skateboards. They wouldn’t have dreamed of it 30 years ago. The lawn was dirt then, hollow-eyed muttering men offered “smokes,” the only diversions were occasional rallies of the Communist party. The infamy of the park was worldwide; my trainer remembers, from his youth in the islands, rap songs about Union Square and what went down there, all of it exciting, none of it good.

Buildings last longer than milkweeds, about as long as trees. Three blocks from where I live there was a movie theater so old the nomenclature had not yet congealed when it was built. PHOTO PLAYS, said the spindly neon sign. You can follow the thought process of the new-media merchant: I am showing photographs, but the series of them tells a story. Next door stood a mission, a simple brick building that always had some ad for Christ posted on its message board. By the time I moved in, the photo plays all told one kind of story, porn; then the theater became an actual play house, losing in the process its ancient sign. The mission remained faithful, until both buildings fell to the last real-estate boom.

Peoples and their neighborhoods have struck their tents, and moved on. A portion of the Upper East Side still showed traces of the German diaspora as late as the Koch years. It was there I first tasted May wine, a double fake: sweet from the sugar, hard from the brandy. The Germans also liked whimsical marzipan, molded into tiny fruits, hams, and red-spotted mushrooms, to distract your palate from the fact that it all tasted like erasers.

The Jews have abandoned the Lower East Side, leaving their synagogues behind them to be converted into Hispanic Pentecostal churches. One of the last businesses to hang on was a lingerie shop at the bottom of a street of clothing stores. A high narrow space, it had heaped-up counters in the center of the floor, but most of the stock was stored in flat boxes, from the manufacturers, ranged on towering shelves. The owner had the dream job of every twelve-year-old boy; he could tell a woman’s bra size by glancing at her, and pluck down the appropriate sheath. After the shop closed, my wife got a letter saying that he was now selling insurance. She would rather we had bailed out his first business.



Ethnicities move away; when people move on, they go farther than Jersey. The old journalist was, like all of us, an ideologue, but he loved losers and irony; his heart often and his wit always warred with his opinions. He looked like a crane, the symbol of longevity, and his stance was alert, as if he was ever ready to perform a service. He loved anecdotage, talk freeing him from the Chinese boxes into which he packed his written words more and more tightly. When he began writing, the city had eight or nine daily papers. The difference between respectable and not-respectable newspapers, he explained, was that the readers of not-respectable newspapers would send you letters saying, “Sir: You are the servant of Jews and Negroes. AN AMERICAN” while the readers of respectable newspapers would send you letters saying, “Sir: You are the servant of Jews and Negroes. Roger F. Rogers, 33–62 47th Ave., Elmhurst.” Everyone honored him; he’s been dead for eleven years. Only one of his books is still in print.

The restaurateur built his business from a hole in the wall to a class act. Every meal was a production. While the maitre d’ took orders and armies of waiters shuffled plates and cutlery, he explained his entrees, listed on the menu in a private code, opaque and slightly erotic (Nightgown, Boom-Boom). Dessert was the climax, when a harem of lovelies would be rolled out on a cart. He had Italian mannerisms of a very old-fashioned sort, before cool gangsters or the Rat Pack. When he died, his obit said that he had had a considerable career recording humorous ethnic songs for the Italian-American market. Who knew? (Smile, shrug, spread hands.) The maitre d’ carried on a while; a few months ago I heard the place closed.

Then there was the ringmaster. He did a million things, but his role peculiar to New York was to bring people together. He was always introducing you to Henry Kissinger, or to some college kid whose writing he liked, or to some world-class musician. What other people could do was a bottomless source of fascination to him, and therefore, he assumed, to you. He hosted a thousand suppers in his stage set of an apartment, making all his guests sing for theirs, rapping his glass to direct our attention to the newest pearl. After he died, some of the regulars got invited to a last evening, a kind of wake. But it turned out to be a staging for the realtor; we were re-enactors, like the blue and the grey refighting Chancellorsville. There was a goody bag at the end, commerce imitating life and the art of hospitality together. In 20 years brokers will show holograms.

Among all the people who are gone is you, with ambitions and prejudices and Seventies hair, with less knowledge and fewer sins. Someone of the same name keeps that man’s place, pretends to answer for him now and then, whenever people want some odd particular glimpse of the past. **NR**

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MARK STEYN

Animal Magnetism

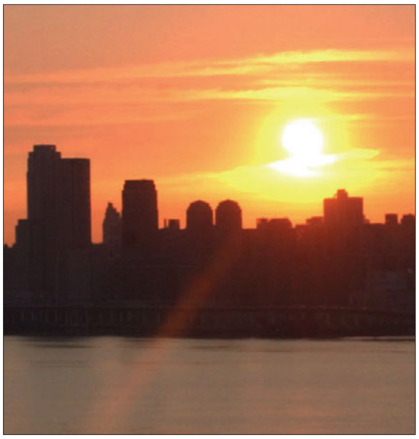
If September 11, 2001, was "the day everything changed," November 4, 2008, was the day everything changed back—at least as far as the rest of the world is concerned. The "global war on terror" was a Bush concept and will expire with his presidency, long past its sell-by date, as far as the "international community" is concerned: Weary Europeans find it unhelpful to the cause of mollifying their own restive Muslim populations, and wealthy Arabs want to get on with buying up the Western world's banks and soccer teams with a somewhat lighter level of scrutiny than they've been subject to these last seven years.

As for President Bush's own citizens, Code Orange is fine if it's just taking your shoes off at the airport, but as a 24/7 mindset it's kind of exhausting. So the United States elected a chief magistrate who talks about health care and job creation and hardly mentions terrorism, except for occasional effusions about invading Pakistan, which one assumes is one of those back-burner midway-through-the-second-term things after he's lowered the oceans and healed the planet. Certainly, in the chancelleries of Europe they don't take it too seriously. The Bush fever is assumed to have passed.

Still, there remain a handful of us who think "the war" was not entirely a construct of Rove-Cheney's dark imagination, and valiantly tootle around town with our "FEAR, NOT HOPE" bumper stickers. Brian T. Kennedy of the Claremont Institute had a grim piece in the *Wall Street Journal* the other day positing an Iranian-directed freighter somewhere off America's shores capable of firing a nuclear-armed Shahab-3 missile that explodes in space over Chicago:

> Gamma rays from the explosion, through the Compton Effect, generate three classes of disruptive electromagnetic pulses, which permanently destroy consumer electronics, the electronics in some automobiles and, most importantly, the hundreds of large transformers that distribute power throughout the U.S. All of our lights, refrigerators, water-pumping stations, TVs and radios stop running. We have no communication and no ability to provide food and water to 300 million Americans.
>
> This is what is referred to as an EMP attack, and such an attack would effectively throw America back technologically into the early 19th century.

If Brian Kennedy were to switch it from an Iranian freighter to an Iranian freighter secretly controlled by a Halliburton subsidiary, he might have a scenario he could pitch to Paramount. But he's got a tougher job pitching it to America. This is the Katrina nation: Our inclination is to ignore the warnings, wait for it to happen, and then blame the government for not doing more. That last part will prove a little more difficult after an EMP attack. I doubt there'll be a blue-ribbon EMP Commission for Lee Hamilton to serve on, or much of a mass media for him to be interviewed by Larry King and Diane Sawyer on. "An EMP attack is not one from which America could recover as we did after Pearl Harbor," writes Mr. Kennedy. "Such an attack might mean the end of the United States and most likely the Free World."



JACQUELINE LARMA/AP

Are there really people out there who want to do that? End the entire Free World? The very term sounds faintly cobwebbed. When nukes were confined to five reasonably sane great powers, the Left couldn't get enough of Armageddon: There were movies, novels, plays, even children's books about the day after, and the long nuclear winter. When it was crazies like Reagan and Thatcher with their fingers on the buttons, the liberal imagination feasted on imminent nuclear immolation. Now it's Ahmadinejad and Kim Jong Il and who knows who else with their fingers on the buttons, and nobody cares: What's the big deal?

Well, the Iranians have held at least two tests in the Caspian Sea to launch missiles in the manner necessary to set off an EMP meltdown. And if you were, say, Vladimir Putin and obsessed with restoring Russia's superpower status, you might reasonably conclude that that might be well nigh impossible without diminishing the superpower status of the other fellow. And, while you wouldn't necessarily want your fingerprints on the operation, you wouldn't go to a lot of trouble to dissuade whichever excitable chaps were minded to have a go.

But beyond that is a broader question. In Afghanistan, the young men tying down First World armies have no coherent strategic goals, but they've figured out the Europeans' rules of engagement, and they know they can fire on NATO troops more or less with impunity. So why not do it? On the high seas off the Horn of Africa, the Somali pirates have a more rational motivation: They can extort millions of dollars in ransom by seizing oil tankers. But, as in the Hindu Kush, it's a low-risk occupation. They know that the Western navies that patrol the waters are no longer in the business of killing or even capturing pirates. The Royal Navy that once hanged pirates in the cause of advancing civilization and order is now advised not even to take them into custody lest they claim refugee status in the United Kingdom under its absurd Human Rights Act.

"Weakness is a provocation," Don Rumsfeld famously asserted many years ago. The new barbarians reprimitivizing various corners of the map are doing so because they understand the weakness of what Brian Kennedy quaintly calls "the Free World." One day the forces of old-school reprimitivization will meet up with state-of-the-art technology, and the barbarians will no longer be on the fringes of the map. If that gives you a headache, I'm sure President Obama will have a prescription-drug plan tailored just for you. **NR**

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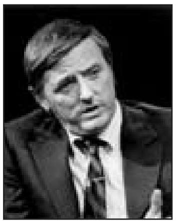

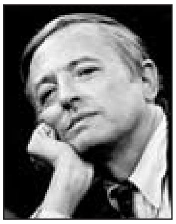

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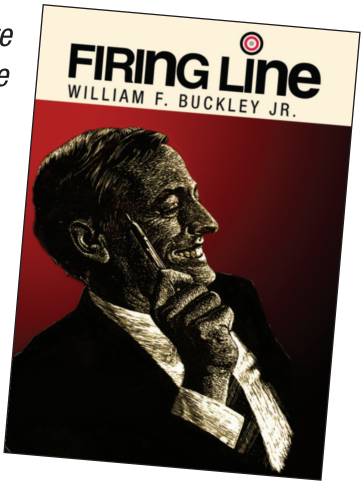

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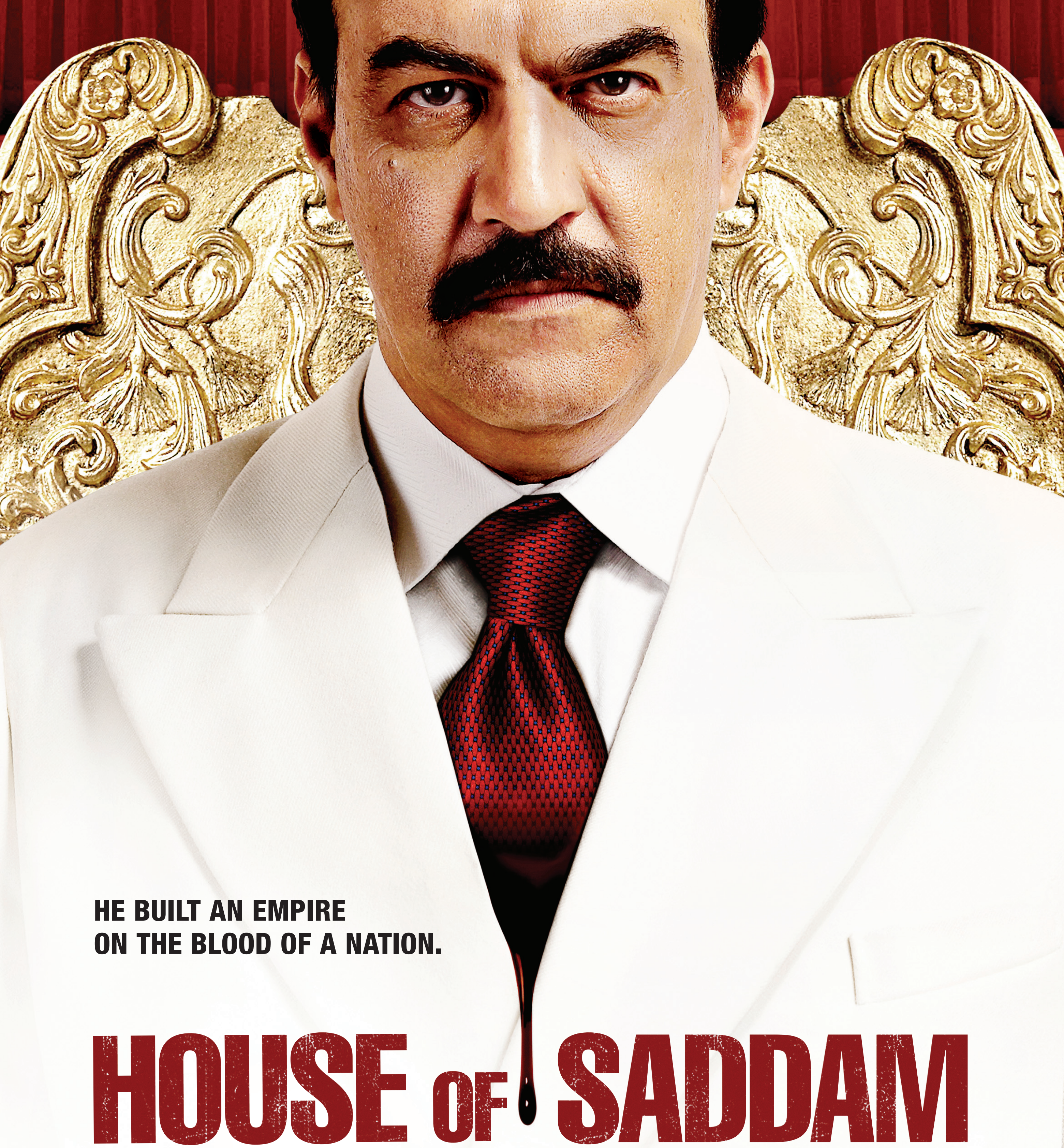

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